

General Fund Revenue Book

- Economic Forecast
- Revenue Projections
- Tax Expenditure Budget

Fiscal Year 1999



Philip E. Batt, Governor

State of Idaho
Philip E. Batt, Governor

General Fund Revenue Book

**FY 1999 Executive Budget
January 1998**

- Economic Forecast
- Revenue Projections
- Tax Structure

prepared by the Division of Financial Management

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INTRODUCTION

The basis for most of the revenue projections made in this book is the *Idaho Economic Forecast* published by the Division of Financial Management (DFM), which in turn is based on the Idaho Economic Model (IEM).¹ Each major revenue category (personal income tax, sales tax, and corporate income tax) is specified as a function of relevant explanatory variables.

Although the revenue model is specified in precise quantitative terms, two levels of uncertainty exist. The first of these uncertainties is associated with the statistical process itself and hence may be reduced to probabilities and confidence intervals. The other is related to the uncertainties associated with unknown future events. Weather effects on agriculture are a classic example. A forecast of agricultural production must either assume average weather or project some specific future weather condition. The forecast is contingent upon that assumed weather pattern actually occurring. Some other weather pattern will result in a different outcome for both farmers and the myriad of entities dependent upon the fortunes of farmers.

The contingent nature of an agricultural model demonstrates the uncertainty associated with any model containing exogenous variables. Both sources of forecast error are present in any model that is dependent on explanatory variables. Since most of Idaho's revenue sectors depend heavily on Idaho income levels, the revenue forecast is particularly sensitive to those factors that influence Idaho's income.

The major foundation of the IEM is economic base theory. Idaho's economy can be divided into "basic" and "domestic" activities (also known as "export" and "residential"). The basic activities, such as agriculture, forestry, mining, manufacturing, tourism, and exported services are characterized by a major dependence on external forces; while domestic activities like construction, trade, local services, and public utilities are characterized by a dependence on influences from within the state. The idea is that basic activities form the foundation of Idaho's level of economic activity, while domestic activities essentially follow from basic activities. While not a perfect theory, economic base theory does serve as a useful means of identifying the driving forces behind Idaho's overall level of economic activity.

¹ The IEM is in turn based on the Standard and Poor's DRI (DRI) Quarterly Model of the U.S. Economy. Descriptions of both are available in the current *Idaho Economic Forecast*, Division of Financial Management.

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Idaho Economic Forecast

The following tables and text are taken from the

January 1998 *Idaho Economic Forecast*,

a publication produced by the

Division of Financial Management.

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EXECUTIVE SUMMARY

Idaho's economy is expected to slow, but not stop, over the forecast period. Nonfarm employment growth is forecast to downshift from 1997's 2.9% pace to 2.5% in 1998. It should remain at that level for the next couple of years, then jump to around 2.7% growth in 2000 and 2001. Idaho nominal personal income is projected to grow between 5.0% and 5.5% from 1997 to 1999. However, like employment growth, its pace will also quicken in 2000 and 2001. Idaho housing starts, another closely watched indicator of the state's economic health, is expected to rise gradually from about 8,600 units in 1997 to around 10,300 units in 2001. The state's population growth, which had risen as high as 3.0% in 1994, should advance about 2.2% over the forecast period. While the outlook for Idaho's economy calls for weaker growth than in the early 1990s, one thing has not changed: the Gem State should continue to grow faster than the national economy over the forecast period.

After surging in 1997, the U.S. economy is forecast to advance at a more sustainable level over the forecast period. Thanks to strong consumer spending and business investment, real GDP increased nearly 4.0% in 1997, which is well above the 2.0%-2.5% pace most economists consider stable. It is anticipated real GDP growth will move into that range this year, and remain there over the forecast period. This level of growth is consistent with low inflation. Consumer prices are expected to rise less than 3.0% annually through 2001. But this is not the only positive news. The combination of strong revenue collections and the federal budget reduction plan should create a small federal budget surplus in federal fiscal year 2002. On the other hand, the nation's merchandise trade deficit will persist. It should be pointed out that no recession is expected over the forecast period.

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 1998

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP (BILLIONS)										
Current \$	6,244	6,558	6,947	7,265	7,636	8,082	8,419	8,748	9,145	9,578
% Ch	5.5%	5.0%	5.9%	4.6%	5.1%	5.8%	4.2%	3.9%	4.5%	4.7%
1992 Chain-Weighted	6,244	6,390	6,611	6,742	6,928	7,188	7,353	7,502	7,690	7,884
% Ch	2.7%	2.3%	3.5%	2.0%	2.8%	3.8%	2.3%	2.0%	2.5%	2.5%
PERSONAL INCOME - CURR \$										
Idaho (Millions)	17,763	19,586	20,732	22,368	23,591	24,844	26,177	27,535	29,107	30,803
% Ch	8.9%	10.3%	5.8%	7.9%	5.5%	5.3%	5.4%	5.2%	5.7%	5.8%
Idaho Nonfarm (Millions)	16,955	18,450	20,082	21,695	22,824	24,099	25,424	26,749	28,294	29,961
% Ch	9.3%	8.8%	8.8%	8.0%	5.2%	5.6%	5.5%	5.2%	5.8%	5.9%
U.S. (Billions)	5,277	5,519	5,792	6,151	6,495	6,870	7,192	7,476	7,797	8,142
% Ch	5.9%	4.6%	4.9%	6.2%	5.6%	5.8%	4.7%	3.9%	4.3%	4.4%
PERSONAL INCOME - 1992 \$										
Idaho (Millions)	17,762	19,076	19,714	20,731	21,355	22,036	22,834	23,522	24,287	25,096
% Ch	5.4%	7.4%	3.3%	5.2%	3.0%	3.2%	3.6%	3.0%	3.3%	3.3%
Idaho Nonfarm (Millions)	16,954	17,970	19,096	20,108	20,660	21,375	22,178	22,850	23,609	24,410
% Ch	5.8%	6.0%	6.3%	5.3%	2.7%	3.5%	3.8%	3.0%	3.3%	3.4%
U.S. (Billions)	5,277	5,376	5,508	5,701	5,880	6,094	6,275	6,388	6,507	6,635
% Ch	2.6%	1.9%	2.5%	3.5%	3.1%	3.6%	3.0%	1.8%	1.9%	2.0%
HOUSING STARTS										
Idaho	9,584	11,456	12,765	9,364	9,234	8,599	8,989	9,310	9,867	10,312
% Ch	45.2%	19.5%	11.4%	-26.6%	-1.4%	-6.9%	4.5%	3.6%	6.0%	4.5%
U.S. (Millions)	1.201	1.292	1.446	1.360	1.467	1.463	1.428	1.395	1.377	1.391
% Ch	19.1%	7.5%	12.0%	-6.0%	7.9%	-0.3%	-2.4%	-2.3%	-1.3%	1.0%
TOTAL NONFARM EMPLOYMENT										
Idaho (Thousands)	416.6	436.7	461.2	477.4	492.6	507.1	519.9	532.4	547.3	562.3
% Ch	4.6%	4.8%	5.6%	3.5%	3.2%	2.9%	2.5%	2.4%	2.8%	2.7%
U.S. (Millions)	108.6	110.7	114.1	117.2	119.5	122.2	124.5	126.2	127.9	129.6
% Ch	0.3%	1.9%	3.1%	2.7%	2.0%	2.2%	1.9%	1.4%	1.4%	1.4%
FINANCIAL MARKETS										
Federal Funds Rate	3.5%	3.0%	4.2%	5.8%	5.3%	5.5%	5.6%	5.1%	4.8%	4.8%
Bank Prime Rate	6.3%	6.0%	7.1%	8.8%	8.3%	8.4%	8.6%	8.1%	7.8%	7.8%
Mort Rate, New Homes	8.3%	7.2%	7.5%	7.9%	7.8%	7.8%	7.3%	7.4%	7.3%	7.2%
INFLATION										
GDP Price Deflator	2.8%	2.6%	2.4%	2.5%	2.3%	2.0%	1.8%	1.8%	2.0%	2.2%
Personal Cons Deflator	3.3%	2.7%	2.4%	2.6%	2.4%	2.1%	1.7%	2.1%	2.4%	2.4%
Consumer Price Index	3.0%	3.0%	2.6%	2.8%	2.9%	2.4%	2.0%	2.3%	2.6%	2.7%

National Variables Forecast by Standard and Poor's DRI
Forecast Begins the THIRD Quarter of 1997

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 1998

	1998				1999				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current \$	8,308	8,383	8,449	8,534	8,618	8,701	8,785	8,886	8,997	9,099	9,187	9,297
% Ch	4.0%	3.6%	3.2%	4.1%	4.0%	3.9%	3.9%	4.7%	5.1%	4.6%	3.9%	4.9%
1992 Chain-Weighted	7,305	7,338	7,363	7,405	7,442	7,481	7,518	7,569	7,623	7,671	7,707	7,759
% Ch	1.9%	1.8%	1.3%	2.3%	2.0%	2.1%	2.0%	2.7%	2.9%	2.6%	1.9%	2.7%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	25,683	26,016	26,341	26,667	27,029	27,355	27,697	28,061	28,494	28,925	29,301	29,706
% Ch	6.0%	5.3%	5.1%	5.0%	5.5%	4.9%	5.1%	5.4%	6.3%	6.2%	5.3%	5.6%
Idaho Nonfarm (Millions)	24,945	25,268	25,583	25,901	26,246	26,573	26,910	27,269	27,697	28,118	28,483	28,878
% Ch	5.9%	5.3%	5.1%	5.1%	5.4%	5.1%	5.2%	5.4%	6.4%	6.2%	5.3%	5.7%
U.S. (Billions)	7,083	7,159	7,229	7,297	7,372	7,442	7,509	7,581	7,674	7,759	7,837	7,916
% Ch	5.1%	4.4%	4.0%	3.8%	4.2%	3.8%	3.7%	3.9%	5.0%	4.5%	4.1%	4.1%
PERSONAL INCOME - 1992 \$												
Idaho (Millions)	22,560	22,755	22,928	23,094	23,284	23,436	23,597	23,770	23,989	24,209	24,380	24,572
% Ch	4.2%	3.5%	3.1%	2.9%	3.3%	2.6%	2.8%	3.0%	3.7%	3.7%	2.9%	3.2%
Idaho Nonfarm (Millions)	21,912	22,100	22,268	22,431	22,609	22,766	22,926	23,099	23,317	23,534	23,699	23,887
% Ch	4.1%	3.5%	3.1%	3.0%	3.2%	2.8%	2.8%	3.1%	3.8%	3.8%	2.9%	3.2%
U.S. (Billions)	6,223	6,263	6,294	6,321	6,352	6,377	6,398	6,423	6,461	6,496	6,522	6,549
% Ch	3.4%	2.6%	2.0%	1.7%	2.0%	1.6%	1.4%	1.6%	2.4%	2.1%	1.6%	1.7%
HOUSING STARTS												
Idaho	8,934	9,000	9,014	9,008	9,084	9,210	9,380	9,566	9,709	9,819	9,917	10,022
% Ch	5.4%	3.0%	0.6%	-0.3%	3.4%	5.7%	7.6%	8.2%	6.1%	4.6%	4.0%	4.3%
U.S. (Millions)	1,460	1,433	1,411	1,409	1,401	1,401	1,393	1,387	1,380	1,383	1,375	1,371
% Ch	-2.3%	-7.0%	-6.1%	-0.5%	-2.3%	0.0%	-2.1%	-1.9%	-1.8%	0.6%	-2.1%	-1.3%
TOTAL NONFARM EMPLOYMENT												
Idaho (Thousands)	514.9	518.3	521.6	524.7	527.6	530.6	533.9	537.5	541.4	546.1	549.1	552.8
% Ch	3.2%	2.7%	2.6%	2.4%	2.2%	2.3%	2.5%	2.7%	2.9%	3.5%	2.3%	2.7%
U.S. (Millions)	123.7	124.3	124.7	125.2	125.6	126.0	126.3	126.7	127.2	127.7	128.1	128.5
% Ch	1.7%	1.8%	1.5%	1.4%	1.3%	1.3%	1.1%	1.3%	1.5%	1.5%	1.3%	1.4%
FINANCIAL MARKETS												
Federal Funds Rate	5.5%	5.8%	5.7%	5.5%	5.3%	5.3%	5.0%	5.0%	5.0%	4.8%	4.7%	4.7%
Bank Prime Rate	8.5%	8.8%	8.7%	8.5%	8.3%	8.3%	8.0%	8.0%	8.0%	7.8%	7.7%	7.7%
Mort Rate, New Homes	7.4%	7.3%	7.3%	7.4%	7.4%	7.4%	7.4%	7.3%	7.3%	7.3%	7.2%	7.2%
INFLATION												
GDP Price Deflator	2.1%	1.7%	1.8%	1.8%	1.9%	1.8%	1.9%	1.9%	2.2%	2.0%	2.0%	2.1%
Personal Cons Deflator	1.7%	1.7%	1.9%	2.0%	2.2%	2.2%	2.3%	2.3%	2.5%	2.4%	2.4%	2.4%
Consumer Price Index	1.9%	1.9%	2.2%	2.3%	2.3%	2.4%	2.4%	2.5%	2.7%	2.6%	2.6%	2.6%

National Variables Forecast by Standard and Poor's DRI
Forecast Begins the THIRD Quarter of 1997

NATIONAL FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 1997 to the Fourth Quarter of 2001

For the first time in a long while one has to look very hard to find something wrong with the U.S. economy. Thanks to a combination of positive factors, the U.S. economy cruised effortlessly most of last year. Low unemployment, low inflation, a soaring stock market, and healthy income growth kept consumer confidence at record levels. These euphoric consumers were willing to keep the economy moving ahead by keeping their debt levels high and savings rates low. As a result, real spending actually grew faster than real disposable income in 1997. Surprisingly, the housing industry posted a strong showing, due in part to low mortgage rates. In response to the stronger economy, real business investment actually accelerated in 1997. Even the stubbornly high federal deficit performed better than expected. For reasons not yet fully understood, the 1997 federal budget deficit came in about \$100 billion lower than was projected.

This is not to say there were no threats to U.S. expansion. The most notable one was the Asian currency crises. Last summer the currencies of Thailand, Indonesia, Malaysia, and the Philippines began to slide. By October 1997, all of them had lost at least 20% of their value. This alone did not have much of an impact on the U.S. economy. In fact, the U.S. stock market rose to record highs last summer. But the U.S. stock market did notice the crash of the Hong Kong stock market. The strong Hong Kong dollar yielded to speculative pressures over the Chinese takeover of the former British colony and the decline of the mainland Chinese currency. The defense of the Hong Kong dollar shot interest rates skyward, which contributed to the Hong Kong stock market's loss of nearly 50.0% of its value. The U.S. stock market plunged more than 500 points on October 27, 1997 in response to Hong Kong's stock woes. Fortunately, the U.S. stock market seems to have since recovered from this setback. Interestingly, this was not the long-expected market correction. In fact, DRI believes the stock market remains overvalued, and that some of this excess will be worked off over the next year and a half. The stock market will be more volatile over this period of adjustment.

The largest impact of the Asian currency crisis will be on trade. The crisis will dampen Southeast Asian economic growth, and some countries may fall into recession. This slower growth will mean weaker demand for U.S. exports. It will also affect imports into the U.S. Facing weak demand and excess capacity at home, many Asian countries will no doubt look beyond their shores for solutions. With Japan's economy struggling, the so-called "Little Tigers" will refocus their export efforts on the West. These efforts will be helped by favorable exchange rates and the booming U.S. economy. This will help keep U.S. inflation in check in a couple of ways. First, the bill for foreign goods will be lower. Second, the lower import prices will keep a lid on price increases by domestic companies eager to protect their hard won market shares.

Another, more likely, threat to the U.S. economy is that it will overheat in the near term and ignite inflation. The economy is already growing faster than almost anyone expected last year. Low unemployment rates are fanning wage gains. If benefit costs soar once again, compensation costs could accelerate, taking inflation with them. If the Federal Reserve bungles its war with inflation, the economy could slip into a recession. DRI has built an alternative forecast based on these assumptions (which is included in the *Alternative Forecasts* section) that shows the economy could suffer a moderate recession in the year 2000.

It should be made clear that no recession is expected in that year or any year for that matter, under the assumptions of the baseline (most probable) forecast. The U.S. economy is projected to grow steadily through 2001. Real GDP is forecast to rise 3.8% in 1997, 2.3% in 1998, 2.0% in 1999, and 2.5% in both 2000 and 2001.

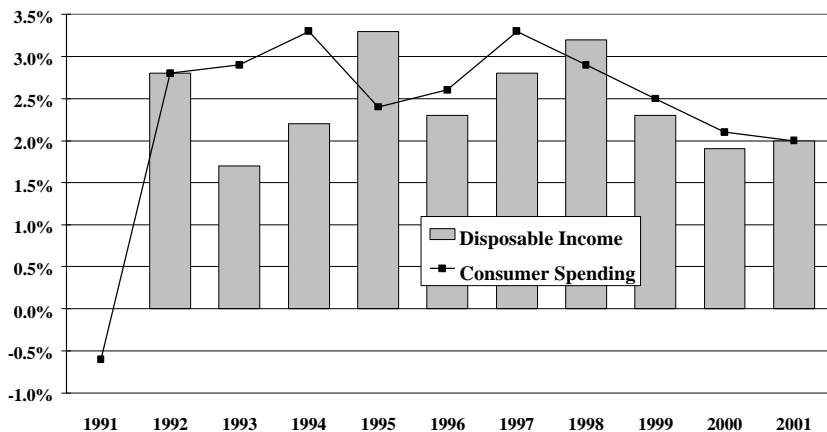
SELECTED NATIONAL ECONOMIC INDICATORS

Consumer Spending:

Real consumer spending growth is forecast to have peaked in 1997 and should taper off over the forecast horizon. Bolstered by record-high consumer confidence levels, real consumer spending not only expanded briskly, but actually grew faster than real disposable income (3.3% versus 2.8%). Most of 1997's spending growth was centered in the durable goods sector, where consumers snatched up furniture, appliances, and computers. Spending on services placed second last year and nondurable goods expenditures grew

the slowest of the three major categories. In order to finance this spending spree, consumers turned once again to savings and credit. Feeling comfortable with their current and near-term economic situations, consumers allowed their collective personal savings rate to slip below 4.0% in 1997. Meanwhile, credit use expanded fast enough that outstanding credit remained about 21% of disposable income. Over the next few years real spending should taper off as it moves more in line with real disposable income. Unfortunately, this will leave little extra income to either rebuild savings or work down debt. As a result, the personal savings rate is expected to remain below 4.0% through 2001 and the percent of credit outstanding to disposable income will remain above 20.0%. Such low savings and high debt raise fears that the economy has become more vulnerable to a consumer retrenchment. This was tested late last year when the U.S. stock market plunged over 500 points in one day. Fortunately, consumers seem to have largely shrugged off this decline, and DRI predicts that it will have only a \$30 billion impact on 1998 GDP. However, they will find it harder to ignore more fundamental changes. Eventually, consumers' euphoria will fall victim to rising unemployment and interest rates and slower income growth. As a result, real consumer spending growth will fall from 3.3% in 1997, to 2.9% in 1998, 2.5% in 1999, 2.1% in 2000, and 2.0% in 2001.

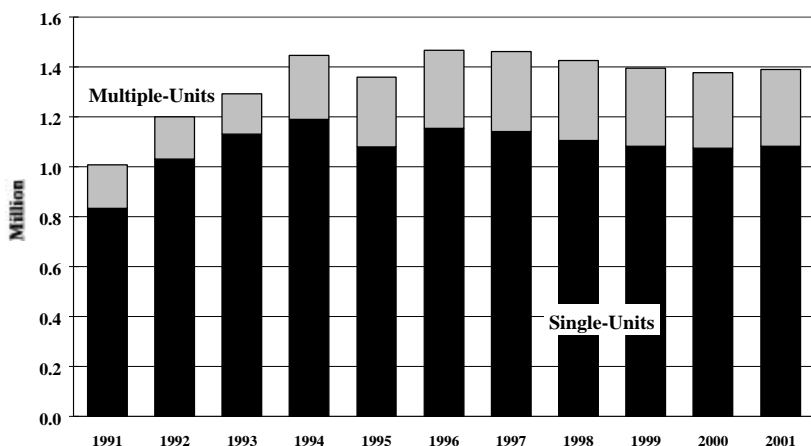
Real Spending & Real Income Growth



Source: Standard and Poor's DRI

Housing: The U.S. housing industry performed much stronger in 1997 than was originally expected. This makes the second year in a row that this industry's strength surprised many forecasters. Many saw 1996's healthy showing as a fluke, and seriously doubted it could be repeated in 1997. In the January 1997 *Idaho Economic Forecast* it was predicted that starts would fall by nearly 100,000 units from 1996 to 1997. However, current data now show the decline should be only one-tenth that

U.S. Housing Starts

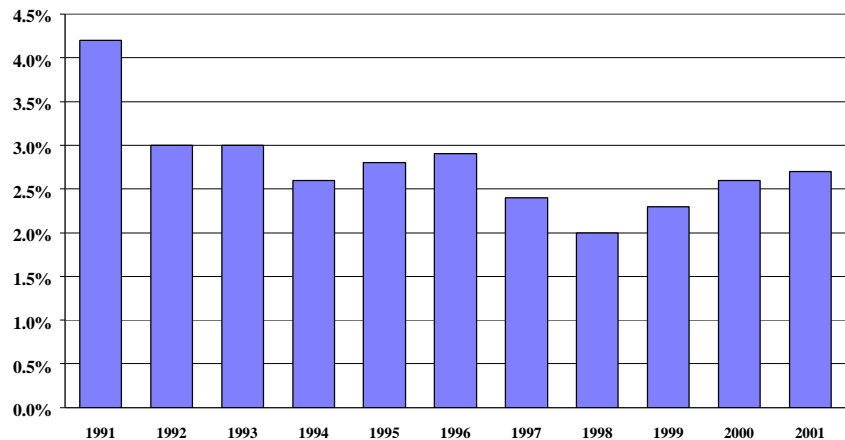


Source: Standard and Poor's DRI

size. Record-setting consumer confidence last year was a major contributor to this increase. Last January it was predicted that consumer confidence would drop off in 1997. Instead, it took off to record levels, as both unemployment and inflation remained low. In addition, falling mortgage interest rates worked in the housing industry's favor. It was previously forecast that the mortgage rate for new homes would end 1997 at around 8.0%. However, this rate was actually closer to 7.6% in the fourth quarter of that year. Housing starts were not the only part of this industry to benefit from these favorable circumstances; both new and existing single-family home sales were above their 1996 levels. The question now is whether a similar set of favorable circumstances will keep the U.S. housing industry on a roll over the forecast period. The short answer is: not likely. Gradually rising unemployment and inflation, along with a less buoyant stock market, will erode consumer confidence. However, this impact will be dampened somewhat by the falling mortgage interest rates anticipated through the first part of 1999. U.S. housing starts are expected to fall to 1.43 million units in 1998, 1.40 units in 1999, and to 1.38 million units in 2000, and 1.39 million units in 2001.

Inflation: Inflation is expected to remain well below its historical average through the forecast period. From 1947 to 1996 consumer prices grew an average of 4.1% per year. From 1997 to 2002, consumer prices are projected to rise less than 3.0% annually. In some cases the increases will be much less. For example, prices increased just 2.4% in 1997. Interestingly, price inflation is forecast to slip to 2.0% in 1998. After this year, inflation will accelerate, but it will not top the 3.0% mark. Last year's and this year's favorable inflation picture reflects a rare alignment of factors that more than offset the mounting pressure from the tight U.S. labor market. Chief among

Consumer Price Inflation



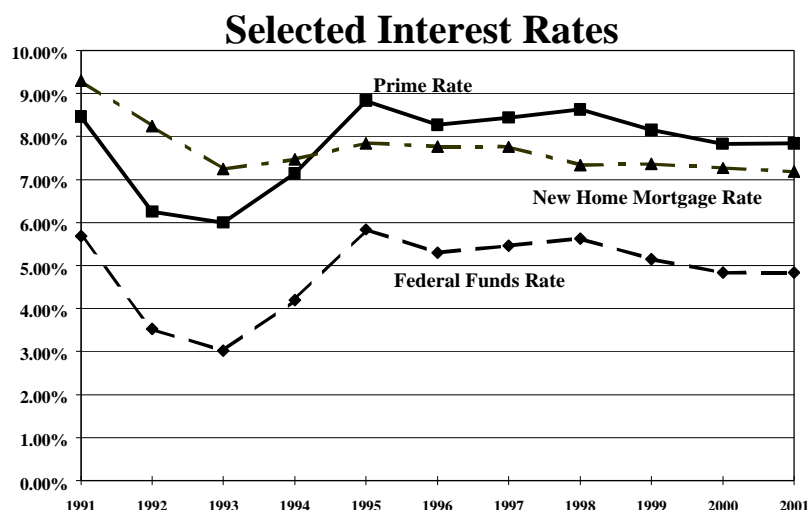
Source: Standard and Poor's DRI

these factors was the slow growth in employer benefit costs. For the second year in a row these costs rose by 2.0% or less, which was lower than the increase in salaries. This was a reversal from previous years when rising medical inflation caused total benefit costs to easily outpace the cost of salaries. This reflects the continued move toward managed health care programs. Employers were also able to keep a lid on benefit prices thanks to the booming stock market that allowed them to reduce contributions to defined benefit plans. This year inflation should continue to slow in response to the strong dollar, surging productivity, and expected declines in food and energy inflation. However, the dollar cannot rise forever, and neither can food inflation and energy inflation decline indefinitely. Without these factors offsetting the still tight labor market, inflation is expected to gradually increase after 1998. Consumer prices are expected to rise 2.4% in 1997, 2.0% in 1998, 2.3% in 1999, 2.6% in 2000, and 2.7% in 2001.

Government: The federal budget deficit shrank to \$22.6 billion (0.3% of GDP) in federal fiscal year 1997, its lowest level in over two decades. In comparison, it was \$280 billion in fiscal year 1992 and was \$107 billion as recently as last year. This strong improvement was a welcome surprise. Initially, both the Congressional Budget Office and the Office of Management and Budget expected the gap to widen in fiscal year 1997. DRI anticipated a \$124 billion deficit. The question is how could these projections be so far off? Part of the reason is outlays were about \$2.6 billion lower than was forecast in January 1997. However, the lion's share of the

improvement was due to much stronger receipts. One of the reasons for the higher receipts was the stronger economy, but that alone does not account for the surge in receipts. Another factor is that the shift to more mutual fund ownership has accelerated the usual pattern of capital gains realization. Interestingly, the U.S. Treasury Department, which has access to the most relevant data, does not believe capital gains are directly responsible for the increased collections. While it may seem ungracious to argue over this “found” money, finding its source is important because it will tell whether this surprise was a unique occurrence or whether it will be repeated in future years. The current forecast assumes this windfall diminishes over time. This forecast also incorporates the Balanced Budget and Taxpayer Relief Acts of 1997. The former raises tobacco taxes and curtails entitlement spending growth. The latter includes the child care and tuition tax credits, a lower capital gains tax rate, changes to estate and gift taxes, changes to airline taxes, and the retroactive extension of the R&D credit. Under these conditions, and assuming the economy avoids a recession, the goal of balancing the federal budget by 2002 appears possible. Specifically, the federal budget deficit is expected to be \$34.0 billion in 1998, \$48.7 billion in 1999, \$43.6 billion in 2000, \$13.9 billion in 2001, then in 2002 it should post a \$4.3 billion surplus.

Financial: The market turmoil and continued good news on inflation should keep Federal Reserve policy on hold for the near future. Another reason the Federal Reserve can afford to be patient is the low inflation has actually raised the real rate of interest (the nominal interest rate less the inflation rate). As a result, although nominal rates are lower than in recent years, when adjusted for inflation, they are actually higher. Eventually, the nation’s central bank will have to tighten, especially given the drop in the unemployment rate to under 5.0% and the acceleration of average hourly earnings. The next rate hike is expected to come early this year. And by the end of next year, the U.S.



Source: Standard and Poor's DRI

economy may have slowed enough for the Federal Reserve to loosen again. Despite last October’s correction, the U.S. stock market remains overvalued. The current forecast calls for a gradual correction over the next year and a half, with prices reasonably stable while earnings catch up. This should also be a period of high volatility. By the end of this 18-month stretch, assuming there is no recession, profits should have caught up with stock valuations, and the stock market should resume its climb.

International: The currency crisis of emerging Asian countries dominated the international news during the second half of last year. First, the Thai baht succumbed to speculative pressures late last summer. Next, Indonesia, Malaysia, and the Philippines all faced similar problems. By the fall of 1997 all of their currencies had declined over 20%, with Thailand and Indonesia sustaining declines of over 30%. Even the seemingly immune Hong Kong dollar yielded to speculative pressures related to the Chinese takeover and the depreciation of the mainland Chinese dollar. This caused the Hong Kong stock market to plunge in October 1997. And late last year South Korea, the world’s eleventh largest economy, sought International Monetary Fund (IMF) assistance to bail out of its financial troubles. In many ways the Asian crises resembles the Mexican peso crises of late 1994. However, there is reason to believe that its fallout will not be as severe. The

countries of Asia have higher internal savings rates, so they are less dependent on foreign capital than Mexico. A loss of confidence abroad will therefore have less of an impact on these countries' abilities to invest. On the other hand, Asia may find it more difficult to recover than Mexico because its banking systems are weak, especially Japanese banks. Also, trade with the fast-growing U.S. economy helped Mexico out of its dire straits. In Asia, Japan remains mired in its own recession, so it cannot be counted on as an engine of growth for the other Asian economies. To date most of this crisis' impacts have been felt by the U.S. stock market, whose value dipped last October over fears stemming from the Hong Kong market's plunge. In the longer run, the largest impact of Asia's crisis on the U.S. will come from trade. First, the weaker growth in these Asian countries will dampen the demand for U.S. imports. Fortunately, these countries are not large importers of U.S. goods. Second, these countries will no doubt try to export their way back to prosperity. This makes sense economically, given these countries' excess industrial capacity and their favorable exchange rates. This increased competition should restrict U.S. price increases and help keep a lid on inflation. The higher dollar and stronger U.S. growth will worsen the trade gap next year.

Business Investment: The recent surge in real business investment probably peaked during the first half of 1997. It is forecast to grow slower over the forecast period. Led by the strong showing of the producers' durable equipment component, nonresidential fixed investment advanced at a remarkable 14.6% annual rate in the second quarter of last year—its best showing since 1983. Thirty-seven percent growth in spending on computers in the first half of 1997 fueled this growth. It actually peaked at a robust 46.2% in the second quarter. While this was lower than 1996's 52% pace, it still represents a strong showing, even by historical standards. Computer spending growth has averaged 23% over the past decade. Recent steep price cuts, quality improvements, and the need to upgrade hardware for the latest generation of software have all contributed to this boom. Nonresidential structure spending has not fared as well; it declined during the first two quarters of last year. However, it did post a small rally at year's end thanks to a recovery in building and other spending. The investment surge has raised nominal total investment to about 10.4% of GDP, which about equals the average of the last 40 years. At this level of investment, capacity will tend to outstrip the long-run growth rate (2.0%-2.5%) of GDP. This implies that investment will probably moderate over the next few years. Indeed, the current forecast shows real spending growth at 10.1% in 1997, then falling to 7.9% in 1998, 4.2% in 1999, 4.5% in 2000, and 4.9% in 2001. Real spending for producers' durable equipment is expected to go from 12.7% in 1997, to 10.6% in 1998, 6.3% in 1999, 5.5% in 2000, and 4.5% in 2001. As in the recent past, real spending on nonresidential structures will grow more slowly than equipment spending. Specifically, real spending on structures are projected to advance 3.7% in 1997, 0.8% in 1998, -1.7% in 1999, 1.8% in 2000, and 6.1% in 2001.

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 1997 through the Fourth Quarter of 2001

Idaho's economy is expected to slow, but not stop, over the forecast period. This is the continuation of a recent trend. For example, after racing along during the early years of the 1990s, Idaho nonfarm employment slowed to a 3.5% pace in 1995 and to a 3.2% rate in 1996. Most of this slowing was centered in the goods-producing sector, with construction employment accounting for most of this change. After rising at double-digit rates through most of the early 1990's, construction employment slowed to 2.2% in 1995 and 3.3% in 1996 as housing starts retreated from 1994's record high. Manufacturing employment also slowed significantly, due to declines in the food processing and lumber and wood products sectors. Some of this growth deceleration also reflects the reclassification of chemical workers from the goods-producing sector to the services-producing sector. The slowdown of the services-producing sector was subtler. In 1995, it grew 4.5%—which was about average for the decade. However, it did slip to 3.2% in 1996.

Given that wages and salaries account for the largest share of personal income, it comes as no surprise that Idaho personal income slowed along with employment in recent years. Idaho nominal personal income, aided by recovering farm proprietors' income, advanced 7.9% in 1995, up from 5.8% the previous year. But it again dropped below 6.0% in 1996. Idaho nonfarm income growth was actually slightly weaker in 1995 compared to 1994 (8.0% versus 8.8%). It dropped to just 5.2% in 1996. Idaho real nonfarm personal income growth fell from 6.3% in 1994 to 5.3% in 1995 and to 2.7% in 1996.

The current outlook does not anticipate growth slipping much further. Idaho nonfarm employment growth is expected to go from 2.9% in 1997 to 2.5% this year. It should remain near this level until it picks up steam again in the year 2000. Idaho nominal personal income is projected to grow between 5.0% and 5.5% from 1997 to 1999. However, its pace will pick up slightly in 2000 and 2001, as employment growth strengthens. Idaho nonfarm income displays a similar growth pattern. Idaho housing starts, another closely watched indicator of the state's economic health, are expected to rise gradually from about 8,600 units in 1997 to around 10,300 units in 2001. The state's population growth, which had risen as high as 3.0% in 1994, should advance about 2.2% over the forecast period.

While the outlook for Idaho's economy calls for weaker growth than in the early 1990s, one thing has not changed: The Gem State should continue to grow faster than the national economy over the forecast period. It should also be noted that the state's economy is making a successful (i.e., relatively pain-free) transition to more sustainable growth levels.

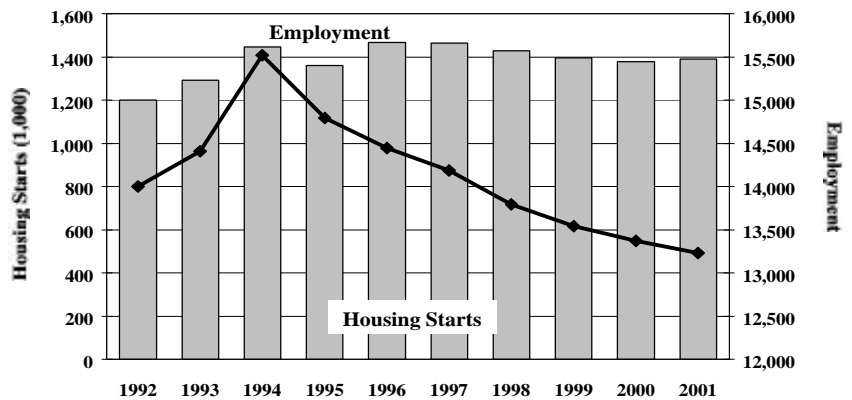
SELECTED IDAHO ECONOMIC INDICATORS

Lumber and Wood Products: Idaho lumber and wood products employment declined in 1997 despite a surprisingly strong U.S. housing market. Bolstered by rising consumer confidence and low mortgage interest rates, U.S. housing starts held near the 1.46 million-unit level for the second straight year. The Gem State, unfortunately, does not seem to have benefited from this strength. One of the reasons for this is the lackluster recovery of the key California housing market. A look at the recent past provides some perspective. There were 90,900 private housing starts in the Golden State in 1996 and 107,000 starts in 1997. This was less than half of the 276,000 average annual starts between 1985 and 1989.

Over the forecast period, Idaho's lumber and wood products sector will get little demand-side help, as national housing starts stall and California starts rise only gradually. Not all of this sector's future challenges will be demand related, however. As in the recent past, concerns over the supply of timber from public lands will shape this industry's outlook. The Gem State's lumber and wood products sector has traditionally been dependent on public timber. For example, when the harvest peaked at 1.9 billion board feet in 1989,

over 40% of the timber came from federal (National Forest and Bureau of Land Management) lands. In 1995, just 1.4 billion board feet were harvested, with the federal share accounting for less than 25% of this total. Looked at another way, the amount of timber from federal lands fell from 827 million board feet in 1989 to 328 million board feet in 1995. The uncertainty surrounding timber supply will probably hamper investment and hiring by both logging companies and mills. In addition, intense bidding for dwindling timber supplies may shrink profits for some companies to the point they have to curtail operations or shutdown completely. Idaho lumber and wood products employment is forecast to drop from 14,184 in 1997 to 13,320 in 2001.

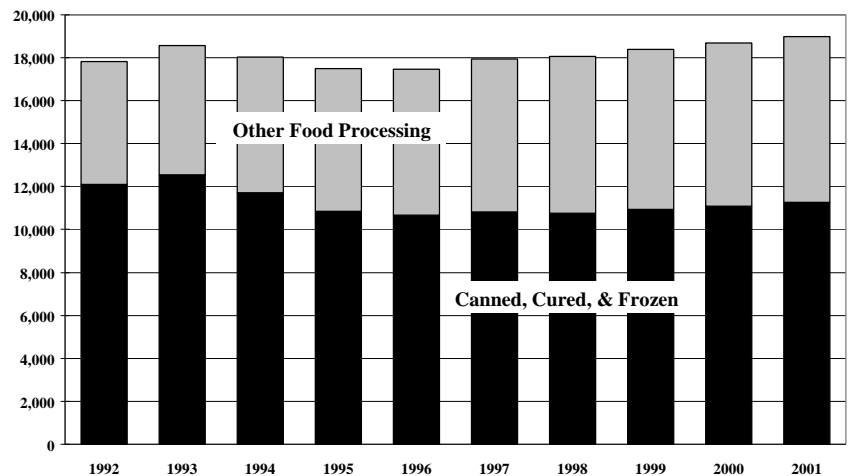
Idaho Lumber & Wood Products Employment and U.S. Housing Starts



Sources: Standard and Poor's DRI and DFM

Food Processing: The state's huge food processing sector experienced an unusual series of changes in 1997. J.R. Simplot Company announced it was closing one of its two potato processing plants at its sprawling Caldwell complex for competitive reasons. The company reported that 370 jobs would be lost as a result of this move and production would be scaled back from 700 million pounds to 450 million pounds. In the spring of 1997 J.R. Simplot Company again announced that it was cutting production and employment, this time at its Heyburn, Idaho potato-processing plant. Company officials cited flat demand as the reason for the move that would result in the loss of approximately 400 jobs. (It later recalled about 100 workers.) In March 1997, H.J. Heinz announced plans to sell off its food service division to Canadian food processing giant McCain Foods, Ltd. This sale included Ore-Ida's Burley potato plant that employs 800. None of these jobs were lost, but about 100 employees at the company's Boise headquarters were laid off. Preliminary data show that

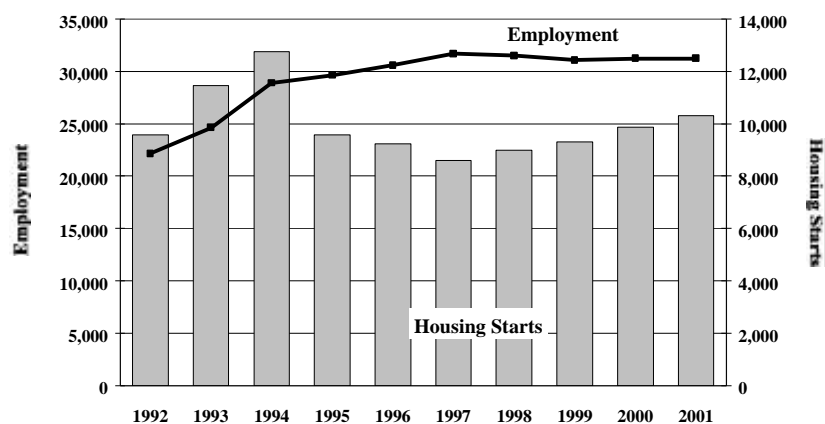
Idaho Food Processing Employment



while employment in the canned, cured, and frozen component slipped noticeably in the second quarter, it remained fairly stable in the third quarter. However, it is expected to have shed another 200 jobs by the end of 1997. Other food processing surged at a 13.8% annual pace in last year's second quarter and should grow steadily over the forecast horizon. Overall, Idaho food processing employment is forecast to rise 0.7% this year and about 1.5% annually thereafter. It should be noted that the recent Asian currency crises could dampen the outlook for food exports. Exports of American-style snack and fast foods, including frozen french fries and other potato products, to this region have expanded with rising incomes and the westernization of Asian diets. These products will become relatively more expensive due to the devaluation of several Asian currencies.

Construction: The Idaho construction sector is not expected to be the engine of growth that it was during the late 1980s and early 1990s. The state's booming population caused construction to set records year after year. From 1988 to 1995 the value of permits in Idaho tripled from \$577.9 million to \$1,822.3 million. Housing starts soared from 3,334 units in 1988 to a peak of 12,765 units in 1994. Construction employment rose from 14,205 to 28,984 over this same period. Despite a 26.6% decline in housing starts in 1995, construction

Idaho Construction Employment and Housing Starts



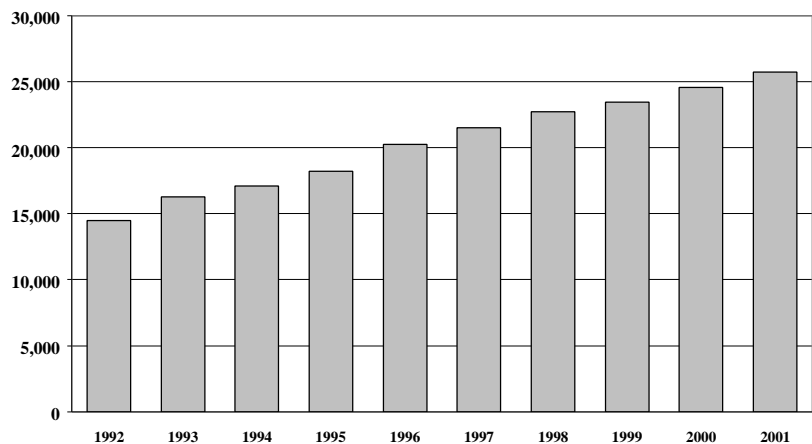
employment still expanded by 2.0% that year due to a strong nonresidential sector. In 1996, total construction values dipped for the first time in eight years. However, employment still eked out a 3.3% gain that year. Unfortunately, limited employment growth is likely to be the rule rather than the exception over the next few years. First Security Bank reports that as of October 1997, the number of new dwellings permitted was 31.6% lower for the same period last year and the total value of permits was down 3.2%. This reflects the demand and supply for housing being more in balance than it was in previous years. Idaho housing starts will increase from 8,599 units in 1997 to 10,312 units in 2001. Over this same period construction employment should hover between 31,000 and 32,000 jobs.

Electrical and Nonelectrical Machinery: Idaho electrical and nonelectrical machinery manufacturing employment growth is forecast to slow markedly over the forecast period. Expansions by two of its largest employers, Hewlett-Packard and Micron Technology, helped double the number of jobs in this sector from 8,422 in 1987 to 17,113 in 1994. These companies' successes were due to the strong demand for their products. The popularity of Hewlett-Packard's laser jet printers pushed employment at the Boise site to about 5,000, making it one of the company's largest facilities. In the mid-1990s, the company refocused the direction of its Boise operation. About 1,000 jobs were cut as its mission moved away from production towards research and development. A casualty in this change was its disk memory and surface mount operations. Recently, the company announced that it is weighing whether it should outsource its laser printer formatter board production. It is estimated that 300 jobs would be lost if this occurred. While past cuts have been painful, the move towards research and development probably means employment at the site will be more stable in the future. Micron Technology benefited

from high prices for its flagship memory products in the early 1990s. Strong demand kept prices high while the company's world-class manufacturing acumen kept production costs falling, causing profits to soar. In an attempt to take advantage of the high prices, Micron, as well as several of its competitors, began expanding. However, the market cooled abruptly in 1996 when memory prices plummeted. As a result, Micron mothballed its new Lemhi, Utah plant. Unfortunately, many of its competitors chose to complete

their multi-billion dollar plants, adding to the already excessive manufacturing capacity, putting further downward pressure on prices. This worldwide excess capacity will be one of the major challenges facing Micron in the near future because many of its Asian competitors will no doubt attempt to export their way back to a profit. These competitors will be aided by the recent devaluation of their currencies. Idaho electrical and nonelectrical employment is forecast to increase 6.1% in 1997, 5.7% in 1998, 3.2% in 1999, 4.7% in 2000, and 4.8% in 2001.

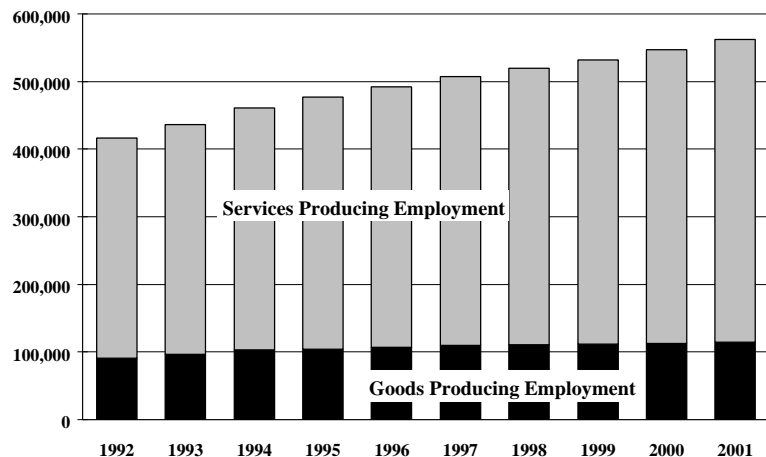
Idaho Electrical & Nonelectrical Employment



Services-Producing Industries:

Like its national counterpart, Idaho's services-producing sector accounts for the lion's share of the state's nonfarm employment. In 1996, nearly eight out of every ten jobs was in this sector. While it is often maligned as a low-skill, low-pay sector, it is in fact a highly diverse sector that includes some of the state's highest paying jobs. Most of the state's "white collar" professional jobs, such as attorneys, physicians, and accountants, are included in this sector. This sector's growth reflects the ongoing transformation from extractive- and

Idaho Nonfarm Employment



manufacturing-based employment to more service-oriented employment. Structural changes have and will continue to shape this transformation. One of the most important trends is the increasing number of women working outside the home. This has increased the demand for a wide range of convenience products, such as fast foods, and services, like childcare. Another structural change that will continue to increase the demand for services is the rising number of single-head and two-earner households. Down the road, the aging baby-boom generation will demand a host of services, including health care, recreation, and long-term care. While structural changes play an important role, cyclical factors also

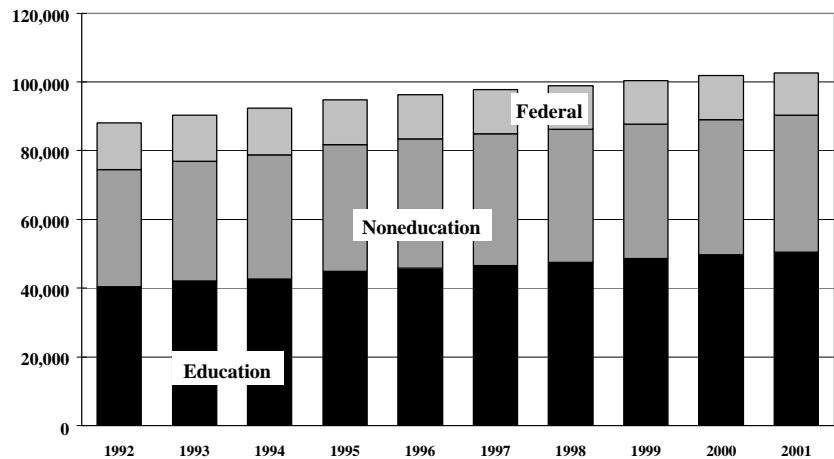
affect this sector's employment. For instance, the influx of new residents in the early 1990s resulted in a construction boom that also benefited a host of other businesses. Real estate agents, cable television companies, landscapers, hardware stores, furniture stores, and insurance agencies, were just a few who profited from this expansion. As the population growth slows, so will the expansion of the services-producing sector. Specifically, it is forecast to expand 3.0% in 1997, 2.9% in 1998, 3.0% in 1999, 3.1% in 2000, and 3.0% in 2001. In comparison, it grew between 4.0% and 5.0% per year during the first half of the 1990s.

Federal, State, and Local Governments:

Efforts to reduce the size of government promise to put a lid on Idaho government employment growth over the forecast period. Thus, this sector's projected growth pace should be significantly slower than in the early 1990s. Hardest hit will be the federal government sector. This component's employment is forecast to decline due to continuing federal budget austerity measures. If it is any consolation, Gem State federal employment will not suffer as much as national

federal employment because Idaho is not as exposed to falling real defense spending. It is anticipated that real defense spending will drop 1.7% annually through 2001, and so will federal employment. Over the same period, Idaho federal employment is forecast to drop just 1.0% per year. Unlike federal employment, the number of Idaho state and local government jobs will not decline, but neither will it match the pace of the early 1990s. Fueled by the combination of a strong economy and fast growing population, Idaho state and local employment expanded 3.6% annually from 1990 to 1995. The state's education sector enjoyed the strongest job growth during this period (3.8%) and other government employment growth was not far behind (3.5%). The expected cooling of both economic and population growth, along with tightening public finances, suggest slower growth in the offing. As a result, Idaho state and local employment should advance 1.6% per year. Idaho education employment should advance 2.0% annually. Noneducation-related employment growth is expected to be about half as fast as education employment growth, averaging just over 1.0% over the forecast period.

Idaho Government Employment



ALTERNATIVE FORECASTS

DRI has assigned a 55% probability of occurrence to its November 1997 baseline forecast of the U.S. economy. The major features of this forecast include:

- real GDP growth hits 3.8% in 1997, then advances between 2.0% and 2.5% annually thereafter;
- nonfarm employment growth drops from 2.2% in 1997 to 1.4% in 2001;
- the civilian unemployment rate rises gradually from 4.8% this year to 5.4% in 2001;
- consumer confidence falls slowly over the forecast period;
- consumer price inflation drops to 2.0% this year, then rises to 2.7% by 2001;
- the federal budget posts a small surplus by 2002;
- but the merchandise trade deficit remains wide.

While the baseline scenario represents the most likely outcome for the national economy over the next few years, the uncertainties surrounding several key variables mean that other outcomes are also possible. To account for this, DRI prepares alternative forecasts based on different assumptions regarding these key variables. Two of these alternative forecasts, along with their impacts on the Idaho economy, are discussed below.

BOOM-BUST SCENARIO

In the *Boom-Bust* scenario the Federal Reserve lets the good times roll too long. As its name suggests, the economy grows faster in the short run compared to the baseline scenario. Strong consumer confidence propels real consumer spending at a 3.4% rate, a slight improvement over 1997's healthy 3.3% pace. In comparison, real spending advances by 2.9% in 1998 in the baseline case. Big-ticket purchases soar along with consumer confidence. Sales of light vehicles surge to almost 16 million annual units and housing starts peak at a 1.57 million-unit rate in late 1998. In an effort to keep pace with this strong demand, real business investment expands 9.1% in 1998, which is significantly faster than the baseline's 7.9% pace. Inflation is also higher in this scenario, but consumers remain optimistic given the healthy job picture and strong income growth. Real GDP advances 2.9% in 1998 in this scenario, compared to 2.3% in the baseline. This stronger showing helps to balance the federal budget deficit three years ahead of schedule (1999 versus 2002).

Inflation remains tolerable during the first half of 1998, but then it takes off. By late 1999 it is peaking at nearly 7.0%. In the baseline, it barely approaches 3.0%. Having waited too long to begin its battle with inflation, the Federal Reserve tightens aggressively in 1999, raising the federal funds rate to 7.5% late in that year. This move, along with falling real wages, stock market jitters, and raising mortgage interest rates, causes consumer confidence to tumble. As a result, real consumer spending falters, which sets in motion a chain reaction of events that leads to the economy falling into a recession. In the year 2000, real GDP slips 1.0%. However, Federal Reserve policies to restart the economy finally begin to show results later in the forecast horizon. By 2001, real GDP rises by 1.6% and then accelerates to 3.8% in 2001. Unfortunately, this slow growth causes the federal budget deficit to not only return, but also grow through 2001.

IDAHO ECONOMIC FORECAST

BASELINE AND ALTERNATIVE FORECASTS

JANUARY 1998

	BASELINE				BOOM-BUST				PESSIMISTIC			
	1998	1999	2000	2001	1998	1999	2000	2001	1998	1999	2000	2001
GDP (BILLIONS)												
Current \$	8,419	8,748	9,145	9,578	8,516	9,057	9,320	9,744	8,290	8,514	8,904	9,360
% Ch	4.2%	3.9%	4.5%	4.7%	5.4%	6.3%	2.9%	4.5%	2.6%	2.7%	4.6%	5.1%
1992 Chain-Weighted	7,353	7,502	7,690	7,884	7,398	7,579	7,501	7,618	7,250	7,351	7,577	7,828
% Ch	2.3%	2.0%	2.5%	2.5%	2.9%	2.4%	-1.0%	1.6%	0.9%	1.4%	3.1%	3.3%
PERSONAL INCOME - CURRENT \$												
Idaho (Millions)	26,177	27,535	29,107	30,803	26,484	28,836	30,761	32,474	25,990	27,135	28,593	30,209
% Ch	5.4%	5.2%	5.7%	5.8%	6.6%	8.9%	6.7%	5.6%	4.6%	4.4%	5.4%	5.6%
U.S. (Billions)	7,192	7,476	7,797	8,142	7,259	7,748	8,122	8,394	7,121	7,316	7,604	7,948
% Ch	4.7%	3.9%	4.3%	4.4%	5.6%	6.7%	4.8%	3.3%	3.7%	2.7%	3.9%	4.5%
PERSONAL INCOME - 1992 \$												
Idaho (Millions)	22,834	23,522	24,287	25,096	22,971	24,020	24,482	25,087	22,700	23,322	24,135	25,004
% Ch	3.6%	3.0%	3.3%	3.3%	4.2%	4.6%	1.9%	2.5%	3.0%	2.7%	3.5%	3.6%
U.S. (Billions)	6,275	6,388	6,507	6,635	6,298	6,456	6,466	6,486	6,220	6,289	6,420	6,580
% Ch	3.0%	1.8%	1.9%	2.0%	3.3%	2.5%	0.1%	0.3%	2.1%	1.1%	2.1%	2.5%
TOTAL NONFARM EMPLOYMENT												
Idaho (Thousands)	519.9	532.4	547.3	562.3	521.1	538.0	551.7	560.3	517.6	526.9	542.3	559.5
% Ch	2.5%	2.4%	2.8%	2.7%	2.8%	3.2%	2.5%	1.6%	2.1%	1.8%	2.9%	3.2%
U.S. (Millions)	124.5	126.2	127.9	129.6	125.3	127.9	128.0	127.1	123.7	124.2	126.0	128.6
% Ch	1.9%	1.4%	1.4%	1.4%	2.5%	2.1%	0.1%	-0.7%	1.2%	0.4%	1.5%	2.0%
GOODS PRODUCING SECTOR												
Idaho (Thousands)	110.6	111.0	112.8	114.6	111.3	112.5	111.3	111.8	109.3	108.7	110.8	113.8
% Ch	1.1%	0.3%	1.6%	1.6%	1.7%	1.0%	-1.0%	0.4%	-0.1%	-0.6%	2.0%	2.7%
U.S. (Millions)	24.7	24.5	24.4	24.5	25.0	25.2	24.6	23.6	24.4	23.7	23.7	24.2
% Ch	0.0%	-1.0%	-0.4%	0.3%	1.1%	0.8%	-2.4%	-3.9%	-1.1%	-3.1%	0.0%	2.1%
SERVICE PRODUCING SECTOR												
Idaho (Thousands)	409.3	421.4	434.6	447.7	409.8	425.6	440.4	448.5	408.3	418.2	431.5	445.6
% Ch	2.9%	3.0%	3.1%	3.0%	3.1%	3.8%	3.4%	1.7%	2.7%	2.4%	3.2%	3.3%
U.S. (Millions)	99.8	101.7	103.5	105.2	100.3	102.7	103.4	103.5	99.2	100.5	102.4	104.4
% Ch	2.3%	1.9%	1.8%	1.6%	2.8%	2.4%	0.7%	0.1%	1.8%	1.3%	1.8%	2.0%
FINANCIAL MARKETS												
Federal Funds Rate	5.6%	5.1%	4.8%	4.8%	5.8%	6.8%	5.9%	3.3%	4.9%	4.2%	3.9%	4.2%
Bank Prime Rate	8.6%	8.1%	7.8%	7.8%	8.8%	9.8%	8.9%	6.3%	7.9%	7.2%	6.9%	7.2%
Mort Rate, New Homes	7.3%	7.4%	7.3%	7.2%	7.4%	8.1%	8.4%	7.3%	7.1%	6.9%	7.0%	6.9%
INFLATION												
GDP Price Deflator	1.8%	1.8%	2.0%	2.2%	2.3%	3.8%	3.9%	2.9%	1.7%	1.3%	1.5%	1.7%
Personal Cons Deflator	1.7%	2.1%	2.4%	2.4%	2.2%	4.1%	4.7%	3.0%	1.6%	1.6%	1.8%	2.0%
Consumer Price Index	2.0%	2.3%	2.6%	2.7%	2.6%	4.5%	4.9%	3.0%	1.8%	1.8%	2.0%	2.2%

Forecast Begins the THIRD Quarter of 1997

The Idaho economy displays a similar growth pattern. Namely, it advances faster than in the baseline in both 1998 and 1999, but grows slower in 2000 and 2001. Idaho nonfarm employment rises 2.8% in 1998, 3.2% in 1999, 2.5% in 2000, and 1.6% in 2001. In the baseline case this measure increases 2.5% this year, 2.4% next year, 2.8% in 2000, and 2.7% in 2001. Idaho real personal income grows 4.2% in 1998 in this scenario, followed by 4.6% in 1999, 1.9% in 2000, and 2.5% in 2001. In comparison, in the baseline case it rises 3.6% in 1998, 3.0% in 1999, and 3.3% in both 2000 and 2001.

PESSIMISTIC SCENARIO

This alternative explores the impacts of a stock market correction on the U.S. economy. Please note that it does not try to predict when this correction occurs. Instead, it attempts to show the likely progression if a correction began in the last quarter of 1997. This scenario assumes that a correction would have an indirect impact on the economy. Households watch as the market slide erodes their retirement savings. They become less optimistic about the future and more cautious with current spending. Consumers tighten their belts and put their buying plans, especially for large-ticket items, on hold. As activity slows, profit margins shrink, reducing corporate earnings. With cash flow down and the business outlook deteriorating, managers trim inventories and investment plans. As a result, real GDP declines slightly in the first three quarters of 1998.

This scenario assumes the Federal Reserve takes quick action to prevent this downturn from becoming more serious. In an effort to keep the economy afloat, it lowers its federal funds rate to 5.25% in February 1998. It continues to lower rates as the economy softens, eventually going to 3.75% in mid-2000. This helps real GDP growth to remain positive each year despite 1998's quarterly weaknesses. Specifically, real GDP ekes out 0.9% in 1998, then advances 1.4% in 1999, 3.1% in 2000, and 3.3% in 2001. In the baseline real GDP rises 2.3% this year, 2.0% next year, and 2.5% in both 2000 and 2001. In the *Pessimistic Scenario* the Idaho economy cruises along in a lower gear than in the baseline case during the first two years of the forecast, then shifts into higher gear. Despite growing slightly faster than its baseline counterpart in 2000 and 2001, it fails to make up for its slow start. For example, Idaho nonfarm employment grows 2.1% in 1998, 1.8% in 1999, 2.9% in 2000, and 3.2% in 2001. However, in the year 2001 employment is 559,500, which is roughly 3,000 less than in the baseline. Not surprisingly, Idaho real personal income is also less than in the baseline in 2001.

Idaho General Fund Revenue

History and Projections

The following pages provide descriptions of the sources of General Fund revenue, historical rate and distribution formula information, historical revenue collection and distribution information, and a brief explanation of the basis of the forecast for each source of revenue that contributes to the General Fund.

Three primary revenue categories (individual income tax, corporate income tax, and sales tax) presently account for almost 94% of General Fund revenue. These sources of revenue are forecast using a combination of econometric methods and judgment. The econometric method is multiple regression, using variables contained in the Idaho Economic Model (IEM). Exogenous forecast data are obtained from the January 1998 *Idaho Economic Forecast*. Both are products of the Division of Financial Management. The judgmental factors considered include the effects of rate changes, other law changes, judicial decisions, and knowledge not reflected in the econometric analysis.

Product taxes and miscellaneous revenue sources are forecast using collections history, trend analysis, law changes, receipts-to-date, and a broad array of contacts with individuals responsible for or otherwise involved with the collection of each revenue category. The largest miscellaneous revenue category, Insurance Premium Tax, is forecast in cooperation with the staff of the Department of Insurance, using simulation models to account for relevant variables and parameters that affect the cash flow into the General Fund.

GENERAL FUND REVENUES*
(\$ MILLIONS)

SOURCE	ACTUAL						
	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993
INDIVIDUAL INCOME TAX	\$264.13	\$287.16	\$343.08	\$398.28	\$432.22	\$459.44	\$508.02
% CHANGE	2.3%	8.7%	19.5%	16.1%	8.5%	6.3%	10.6%
CORPORATE INCOME TAX	\$46.17	\$63.91	\$72.96	\$72.49	\$60.02	\$57.97	\$70.00
% CHANGE	7.0%	38.4%	14.2%	-0.6%	-17.2%	-3.4%	20.8%
SALES TAX	\$259.36	\$258.76	\$288.78	\$319.29	\$335.74	\$364.32	\$402.82
% CHANGE	22.6%	-0.2%	11.6%	10.6%	5.2%	8.5%	10.6%
CIGARETTE TAX	\$8.19	\$6.92	\$6.79	\$5.88	\$6.86	\$7.07	\$7.00
BEER TAX	\$1.55	\$1.53	\$1.51	\$1.55	\$1.60	\$1.66	\$1.70
WINE TAX	\$0.86	\$0.87	\$0.79	\$0.77	\$0.75	\$0.75	\$0.75
LIQUOR SURCHARGE	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>
PRODUCT TAXES Subtotal	\$15.56	\$14.26	\$14.04	\$13.15	\$14.16	\$14.43	\$14.39
% CHANGE	15.3%	-8.3%	-1.6%	-6.3%	7.7%	1.9%	-0.2%
KILOWATT-HOUR TAX	\$1.82	\$1.49	\$1.59	\$1.68	\$1.78	\$1.61	\$1.45
MINE LICENSE TAX	\$0.28	\$0.57	\$0.21	\$0.25	\$0.47	\$0.59	\$0.11
TREASURER	\$7.62	\$10.01	\$16.18	\$17.55	\$19.39	\$11.81	\$10.54
JUDICIAL BRANCH	\$2.80	\$2.86	\$3.14	\$3.43	\$3.33	\$3.39	\$3.21
DEPT. OF INSURANCE	\$21.26	\$31.18	\$26.22	\$25.21	\$28.64	\$31.94	\$28.81
DEPT. OF LAW ENFORCEMENT	\$1.06	\$1.04	\$1.03	\$1.08	\$0.99	\$1.01	\$0.96
UNCLAIMED PROPERTY	\$0.87	\$1.00	\$0.74	\$1.16	\$1.15	\$1.35	\$1.34
OTHER DEPTS. & TRANS.	<u>\$11.45</u>	<u>\$3.19</u>	<u>\$4.56</u>	<u>\$3.50</u>	<u>\$3.61</u>	<u>\$3.98</u>	<u>\$1.82</u>
MISC. REVENUE Subtotal	\$47.15	\$51.33	\$53.67	\$53.86	\$59.36	\$55.68	\$48.23
% CHANGE	5.3%	8.9%	4.6%	0.3%	10.2%	-6.2%	-13.4%
TOTAL GENERAL FUND	\$632.36	\$675.42	\$772.53	\$857.08	\$901.50	\$951.84	\$1,043.47
% CHANGE	10.7%	6.8%	14.4%	10.9%	5.2%	5.6%	9.6%

* Totals may not add due to rounding.

GENERAL FUND REVENUES*

(\$ MILLIONS)

SOURCE	ACTUAL				FORECAST	
	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
INDIVIDUAL INCOME TAX	\$559.17	\$596.46	\$650.85	\$704.82	\$750.30	\$795.30
% CHANGE	10.1%	6.7%	9.1%	8.3%	6.5%	6.0%
CORPORATE INCOME TAX	\$87.63	\$131.64	\$151.98	\$122.36	\$126.40	\$134.10
% CHANGE	25.2%	50.2%	15.5%	-19.5%	3.3%	6.1%
SALES TAX	\$452.68	\$481.57	\$463.00	\$476.73	\$498.00	\$524.60
% CHANGE	12.4%	6.4%	-3.9%	3.0%	4.5%	5.3%
 CIGARETTE TAX	 \$7.61	 \$7.25	 \$7.48	 \$7.49	 \$7.40	 \$7.30
BEER TAX	\$1.71	\$1.65	\$1.62	\$1.63	\$1.65	\$1.70
WINE TAX	\$0.81	\$1.14	\$1.52	\$1.66	\$1.76	\$1.70
LIQUOR SURCHARGE	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>
PRODUCT TAXES Subtotal	\$15.07	\$14.99	\$15.57	\$15.73	\$15.76	\$15.65
% CHANGE	4.7%	-0.6%	3.9%	1.0%	0.2%	-0.7%
 KILOWATT-HOUR TAX	 \$2.09	 \$1.69	 \$2.89	 \$2.97	 \$2.90	 \$2.70
MINE LICENSE TAX	\$0.47	\$0.29	\$0.80	\$0.66	\$0.50	\$0.50
TREASURER	\$10.61	\$15.00	\$18.54	\$18.24	\$18.30	\$13.60
JUDICIAL BRANCH	\$3.72	\$3.89	\$4.24	\$4.71	\$4.80	\$4.90
DEPT. OF INSURANCE	\$33.19	\$34.93	\$36.13	\$40.26	\$41.38	\$41.97
DEPT. OF LAW ENFORCEMENT	\$1.04	\$1.07	\$1.05	\$1.14	\$1.20	\$1.25
UNCLAIMED PROPERTY	\$1.71	\$2.09	\$1.39	\$0.83	\$0.50	\$0.75
OTHER DEPTS. & TRANS.	<u>\$5.69</u>	<u>\$4.49</u>	<u>\$4.51</u>	<u>\$3.41</u>	<u>\$3.60</u>	<u>\$1.36</u>
MISC. REVENUE Subtotal	\$58.52	\$63.46	\$69.55	\$72.23	\$73.18	\$67.03
% CHANGE	21.3%	8.4%	9.6%	3.9%	1.3%	-8.4%
 TOTAL GENERAL FUND	 \$1,173.08	 \$1,288.10	 \$1,350.94	 \$1,391.86	 \$1,463.63	 \$1,536.67
% CHANGE	12.4%	9.8%	4.9%	3.0%	5.2%	5.0%

* Totals may not add due to rounding.

INDIVIDUAL INCOME TAX

Description: (Title 63, Chapter 30, *Idaho Code*)

Collections from the individual income tax are based on a graduated scale of tax rates that are applied to brackets of taxable income. Current and past individual income tax rate brackets are detailed in the following table.

INDIVIDUAL INCOME TAX RATE HISTORY

Tax Rates on the Portion of Taxable Income ⁽¹⁾									
Greater Than	\$0	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	\$7,500	\$20,000
But Not More Than	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	\$7,500	\$20,000	
Tax 1931	1.0%	1.0%	2.0%	2.0%	3.0%	3.0%	4.0%	4.0%	4.0%
Years 1933	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.0%	6.0%	6.0%
1935	1.5%	3.0%	4.0%	5.0%	6.0%	8.0%	8.0%	8.0%	8.0%
1955 ²	1.61%	3.23%	4.30%	5.38%	6.45%	8.60%	8.60%	8.60%	8.60%
1957 ³	2.0%	4.0%	5.5%	6.6%	7.7%	8.8%	8.8%	8.8%	8.8%
1959	3.5%	5.0%	6.5%	7.5%	8.5%	9.5%	9.5%	9.5%	9.5%
1963	3.4%	5.5%	7.2%	8.25%	9.35%	10.5%	10.5%	10.5%	10.5%
1965	2.5%	5.0%	6.0%	7.0%	8.0%	9.0%	9.0%	9.0%	9.0%
1972	2.0%	4.0%	4.5%	5.5%	6.5%	7.5%	7.5%	7.5%	7.5%
1987	2.0%	4.0%	4.5%	5.5%	6.5%	7.5%	7.5%	7.8%	8.2%

1. Amounts shown are for single and married filing separate returns.

For all other filing status returns double the income amounts at the top of the columns.

2. Rates shown include 7.5% surcharge on all brackets. Effective in 1955 and 1956.

3. Rates shown include 10% surcharge on brackets greater than \$2000. Effective in 1957 and 1958.

State law pertaining to the Idaho income tax base conforms to most of the provisions enacted in the federal Internal Revenue Code (IRC). Notable exceptions include: a) retention of the state investment tax credit, including its tie-in to the federal definition of eligible property, and b) enactment of a limited capital gains exclusion at the state level.

Most individual income tax collections occur through the monthly withholding process. The remainder is collected through filing collections, which consist of payments made with tax returns and payments associated with audit recoveries. Since the enactment of Idaho's income tax in 1931, all net tax liability, interest, and penalties have been distributed to the General Fund. (An amount equal to 20% of the individual income taxes collected by the State Tax Commission and deposited with the State Treasurer is required by statute to be deposited in the State Income Tax Refund Fund. Any balance exceeding \$400,000 in the State Income Tax Refund Fund at the end of the year is transferred to the General Fund on June 30.) A separate filing tax of \$10 per income tax return has been assessed since 1959. Proceeds of the filing tax went to the General Fund until 1961, when their distribution was changed to the Permanent Building Fund. The income tax return form includes a variety of other "checkoffs" that can be used by the taxpayer to donate various amounts (usually from refunds) to special funds such as nongame wildlife, drug enforcement, etc.

Basis of Projection:

The projections of General Fund revenue from the individual income tax for FY 1998 and FY 1999 are based on a combination of econometric analysis and judgment.

The econometric analysis begins with the Idaho Economic Model (IEM), an economic base model of Idaho's economy that is used to derive employment by industry and by income type. Idaho income data is then used to correlate historical net withholding collections (gross withholding collections less refunds) to Idaho wage and salary payments. Filing collections are estimated using proprietors' income as the primary explanatory variable.

The econometric-based forecast of net withholding collections and filing collections are then adjusted to reflect: a) new features of the tax law that are expected to impact future collections and accruals, and b) effects of other factors that are expected to have impacts not reflected in the econometric analysis.

The forecast that follows assumes no further change in current Idaho income tax law, a standard practice of this Division's revenue analysis.

Historical Data:

INDIVIDUAL INCOME TAX (\$ THOUSANDS)

		Gross Collections	Distributions			% Share of Total Gen. Fund
			Refunds	Gen. Fund	Perm. Building Fund Misc. "Check-Off" Donations	
Year						
FY70	Actual	\$45,142.4	\$6,603.4	\$35,858.8	\$1,120.0	36.4%
FY71	Actual	51,186.4	7,512.8	40,738.9	1,104.3	38.5%
FY72	Actual	64,107.9	9,460.1	51,235.1	1,040.2	41.7%
FY73	Actual	76,510.6	13,658.2	59,164.7	977.7	41.0%
FY74	Actual	95,374.0	16,058.6	75,103.7	973.4	42.7%
FY75	Actual	117,911.0	23,372.8	89,566.5	1,046.8	43.6%
FY76	Actual	131,064.3	24,436.3	99,387.0	940.7	\$38.7 43.9%
FY77	Actual	150,650.7	29,844.0	116,587.3	920.6	45.6 46.2%
FY78	Actual	169,195.1	24,210.7	143,660.6	39.6	8.4 48.8%
FY79	Actual	198,231.0	31,245.2	163,203.8	907.8	104.1 49.3%
FY80	Actual	212,761.8	35,322.8	172,620.9	1,081.4	76.1 48.3%
FY81	Actual	242,743.6	41,262.4	196,892.1	1,093.2	79.6 50.8%
FY82	Actual	264,162.3	45,070.0	215,835.5	1,082.1	149.2 53.3%
FY83	Actual	272,845.0	56,725.0	212,356.6	1,064.1	184.8 51.2%
FY84	Actual	287,957.0	54,731.7	230,002.0	3,008.0	215.3 46.4%
FY85	Actual	314,955.9	62,164.8	249,277.9	3,322.7	190.5 45.4%
FY86	Actual	324,704.5	63,132.6	258,065.2	3,275.8	230.9 45.2%
FY87	Actual	331,393.7	63,191.4	264,128.9	3,842.1	231.3 41.8%
FY88	Actual	340,376.7	50,486.1	287,156.0	2,581.4	153.2 42.5%
FY89	Actual	394,403.4	47,582.5	343,077.5	3,551.4	192.0 44.4%
FY90	Actual	459,019.4	56,873.5	398,284.0	3,668.1	193.8 46.5%
FY91	Actual	508,711.2	72,282.6	432,218.3	3,984.1	226.2 47.9%
FY92	Actual	543,233.5	80,435.4	459,438.2	3,157.0	202.9 48.3%
FY93	Actual	609,443.1	96,209.4	508,023.1	4,998.9	211.7 48.7%
FY94	Actual	671,419.7	107,859.3	559,166.6	4,215.4	178.4 47.7%
FY95	Actual	724,809.1	123,717.5	596,457.5	4,459.0	175.2 46.3%
FY96	Actual	770,804.9	115,072.5	650,850.0	4,708.5	173.9 48.2%
FY97	Actual	830,855.9	120,709.9	704,819.9	4,236.1	149.7 50.6%
FY98	Projection	888,700.0	133,700.0	750,300.0	4,500.0	200.0 51.3%
FY99	Projection	944,500.0	144,300.0	795,300.0	4,700.0	200.0 51.8%

CORPORATE INCOME TAX

Description: (Title 63, Chapter 30, *Idaho Code*)

Collections from the corporate income tax are currently based on a flat rate of 8.0% applied to taxable income. For a listing of earlier rates refer to the following table. Beginning with tax year 1987, Idaho conformed to the changes made by the Tax Reform Act of 1986, except for the federal investment tax credit repeal. Idaho continues to allow a 3% credit that is tied to the federal definition of eligible property. Also, since September 1987, Idaho has been requiring that corporations file quarterly payments of estimated taxes. This provision is based upon federal rules and was phased in over a two-year period.

CORPORATE INCOME TAX RATE HISTORY

Tax Rates on the Portion of Income:								
Greater Than		\$0	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000
But Not More Than		\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	
Tax	1931	1.0%	1.0%	2.0%	2.0%	3.0%	3.0%	4.0%
Years	1933	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.0%
	1935	1.5%	3.0%	4.0%	5.0%	6.0%	6.0%	8.0%
	1954 ¹	1.28%	2.55%	3.40%	4.25%	5.10%	5.10%	6.80%
	1955	7.5%	Beginning of Single "Flat" Tax Rate on all Positive Net Taxable Income					
	1957	8.0% + 10% Surcharge in 1957 and 1958.						
	1959	9.5%						
	1963	10.5%						
	1965	6.0%						
	1972	6.5%						
	1981	6.5% + 0.2% franchise tax up to \$250,000.						
	1983	7.7%						
	1987	8.0%						

1. Same tax rate as 1954 but with the inclusion of a 15% reduction (negative surcharge).

Since its enactment in 1931, all net tax liability, interest, and penalties associated with the corporate income tax have been distributed to the General Fund. (An amount equal to 20% of the corporate income taxes collected by the State Tax Commission and deposited with the State Treasurer is required by statute to be deposited in the State Income Tax Refund Fund. Any balance exceeding \$400,000 in the State Income Tax Refund Fund at the end of the year is transferred to the General Fund on June 30.) An additional filing tax of \$10 per tax return has been assessed since 1959. Proceeds of the filing tax went to the General Fund until 1961, when their distribution was changed to the Permanent Building Fund.

Basis of Projection:

Projections of the General Fund revenue from the corporate income tax are based on a combination of econometric analysis, a simulation model of the cash-flow process under quarterly payments, and judgment. Historical corporate income tax collections are correlated with income and financial concepts found in the IEM and DRI's *Review of the U.S. Economy*.

The revenue collected in FY 1991 declined as a consequence of declines in one-time cash flow from quarterly payments. Quarterly payments have also accelerated the response time between changes in profit conditions and corporate income tax cash flow. When combined with multi-state apportionment, this yields an accelerated link between national economic conditions and Idaho corporate income tax receipts. The sharp drop in corporate income tax collections in FY 1997 is the result of the semiconductor price collapse that struck the DRAM industry in 1996.

Historical Data:

CORPORATE INCOME TAX (\$ THOUSANDS)

Year		Gross Collections	Distributions				% Share of Total Gen. Fund
			Refunds	Gen. Fund	Perm. Building Fund	Multi-State Tax Compact	
FY70	Actual	\$11,125.8	\$1,661.1	\$10,645.6	\$52.1		10.8%
FY71	Actual	12,562.9	1,875.8	11,736.1	57.5		11.1%
FY72	Actual	12,895.0	1,924.9	12,276.3	62.7		10.0%
FY73	Actual	16,024.7	3,340.0	15,220.2	68.7		10.5%
FY74	Actual	23,076.0	4,021.6	22,161.0	74.0		12.6%
FY75	Actual	28,161.7	5,616.1	26,978.7	81.1		13.1%
FY76	Actual	31,751.8	2,215.4	29,448.9	87.6		13.0%
FY77	Actual	31,033.6	1,931.6	29,009.9	92.1		11.5%
FY78	Actual	33,326.2	2,481.8	30,802.9	41.5		10.5%
FY79	Actual	39,247.1	3,322.2	35,869.3	55.5		10.8%
FY80	Actual	42,603.9	3,133.3	39,363.2	107.4		11.0%
FY81	Actual	50,875.5	4,416.2	46,288.4	127.2	\$43.6	11.9%
FY82	Actual	45,602.0	5,416.2	40,010.6	146.4	26.3	9.9%
FY83	Actual	39,673.6	10,191.3	29,281.3	149.0	51.9	7.1%
FY84	Actual	42,226.7	15,504.7	26,535.3	116.6	70.1	5.4%
FY85	Actual	49,660.1	6,698.2	42,788.0	133.6	40.3	7.8%
FY86	Actual	50,253.2	6,900.6	43,138.4	150.2	63.9	7.6%
FY87	Actual	53,276.8	6,878.1	46,165.9	190.9	41.9	7.3%
FY88	Actual	74,230.7	10,070.2	63,906.1	160.3	94.0	9.5%
FY89	Actual	80,394.1	7,152.7	72,962.6	209.6	69.3	9.4%
FY90	Actual	82,635.9	9,914.5	72,492.0	212.3	17.2	8.5%
FY91	Actual	72,265.0	11,995.9	60,017.2	252.0	0.0	6.7%
FY92	Actual	71,443.1	13,162.9	57,971.3	194.2	114.7	6.1%
FY93	Actual	83,582.6	13,194.3	70,003.8	282.0	102.5	6.7%
FY94	Actual	102,772.3	14,870.6	87,628.2	196.8	76.7	7.5%
FY95	Actual	152,809.5	20,818.3	131,636.1	250.7	104.4	10.2%
FY96	Actual	173,392.5	21,128.3	151,979.2	246.7	38.3	11.2%
FY97	Actual	138,276.6	15,479.0	122,357.2	249.5	190.9	8.8%
FY98	Projection	144,200.0	17,400.0	126,400.0	250.0	150.0	8.6%
FY99	Projection	153,500.0	19,000.0	134,100.0	250.0	150.0	8.7%

SALES TAX

Description: (Title 63, Chapter 36, *Idaho Code*)

Sales tax collections are based on a flat rate of 5% applied to the sales price or value of tangible personal property and services that are subject to sales and use taxation. The rate and distribution history is shown on the following table.

SALES TAX RATE HISTORY AND DISTRIBUTION FORMULA (\$ THOUSANDS)

Effective Date	Tax Rate	Gen. Fund	Perm. Build Fund	Rev. Sharing	Alloc. to Counties ⁶	Pollut-ion Control	Public School Inc. Fund	Misc. Distributions
Jul-1965	3.0%	Bal.	\$500					1,2
Jul-1968	3.0%	Bal.	\$500		5.0%			2
Jul-1969	3.0%	Bal.	\$500		10.0%			2
Jul-1970	3.0%	Bal.	\$500		15.0%			2
Jul-1971	3.0%	Bal.	\$500		20.0%			2
Jul-1975	3.0%	Bal.	\$500		20.0%			2,4
Jul-1976	3.0%	Bal.	\$500		20.0%			2,4
Jul-1977	3.0%	Bal.	\$500		20.0%			2,3,4
Jul-1980	3.0%	Bal.	\$500		10.0%		10.0%	2,3,4
Mar-1983	4.0%	Bal.	\$500		10.0%		10.0%	2,3,4
Jun-1983	4.5%	Bal.	\$500		10.0%		10.0%	2,3,4
Jul-1984	4.0%	Bal.	\$500	6.25%	7.5%	\$4,800		3,4
Apr-1986	5.0%	Bal.	\$500	6.25%	7.5%	\$4,800		3,4
Jul-1987	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800		3,4
Jul-1988	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800		3,4,5

1. Amount equal to 1-mill of all assessed property values distributed to Teachers Retirement System;
\$1,000,000 lump sum (one-time) distribution to Tax Commission.
2. Amount equal to the sum required to be certified by the state controller distributed to the Social Security Trust Fund.
3. Amount equal to the sum required to be certified by the Idaho housing agency.
4. \$1.00 per registration fee on vehicle registration transfers that do not involve sales tax.
5. Amount certified by the Tax Commission as necessary to fund the Circuit Breaker.
6. For the period March 1983 through June 1984 this percentage was applied only to the 3% "base" sales tax rate.

Sales tax funds must be allocated to the Idaho Housing and Finance Association if, within 60 days of the close of the fiscal year, the Chairman of the Housing and Finance Association Board of Commissioners certifies to the State Tax Commission that a deficiency exists in the agency's Capital Reserve Fund. No such certification has been made in any year, nor is one anticipated for the current fiscal year. Beginning in 1996, this provision is limited to no more than \$89 million. Also, it only applies to bonds issued prior to 1996. In effect, this provision has been repealed for bonds issued on or after January 1996.

Basis of Projection:

The projections of FY 1998 and FY 1999 net General Fund accruals from the sales tax are based on econometric analysis and judgment. Historic monthly gross collections data are first adjusted for changes in the tax rate and any major collection anomalies. The adjusted data is then related to Idaho income and construction data using econometric analysis. Income forecasts from the *Idaho Economic Forecast* are then used to forecast gross sales tax collections. Historical refund levels and the current distribution formula are used to translate gross collections to net General Fund accruals. FY 1998 collections and accruals are also extrapolated from receipts-to-date, based on historical collection patterns. Judgmental considerations include the results of ongoing revenue monitoring and the expected impacts of new compliance and audit activities.

Historical Data:

SALES TAX (\$ THOUSANDS)

			Distributions								% Share of Total Gen. Fund	
			Refunds	Gen. Fund	Perm. Building Fund	Rev. Sharing	Alloc. To Counties	Pollut- ion Control	Circuit Breaker	Property Tax Relief		Misc. Dist.
Year		Gross Collections										
FY70	Actual	\$41,678.2	\$61.6	\$33,055.0	\$500.0		\$4,161.7				\$3,899.9 ^{1,2}	33.6%
FY71	Actual	45,368.6	101.9	34,076.7	500.0		6,790.0				3,900.0 ^{1,2}	32.2%
FY72	Actual	51,704.1	81.1	36,967.1	500.0		10,324.6				3,831.3 ^{1,2}	30.1%
FY73	Actual	60,999.6	70.3	43,281.3	500.0		12,186.1				4,961.9 ^{1,2}	30.0%
FY74	Actual	69,833.3	340.7	49,250.0	500.0		13,898.5				5,844.1 ^{1,2}	28.0%
FY75	Actual	79,108.7	100.4	57,022.8	500.0		15,801.7				5,683.8 ¹	27.8%
FY76	Actual	88,874.0	137.5	63,650.6	500.0		17,747.3				6,838.6 ¹	28.1%
FY77	Actual	103,859.6	219.2	73,594.5	500.0		20,728.1				8,817.8 ¹	29.2%
FY78	Actual	118,866.2	157.0	84,107.4	500.0		23,741.8				10,360.0 ¹	28.6%
FY79	Actual	129,906.4	205.9	91,463.6	500.0		25,940.1				11,796.8 ¹	27.6%
FY80	Actual	137,113.9	264.5	95,984.6	500.0		27,369.9				12,994.9 ¹	26.9%
FY81	Actual	145,008.0	220.5	97,679.3	500.0		14,476.0				32,132.2 ^{1,2}	25.2%
FY82	Actual	146,206.9	311.8	98,720.2	500.0		14,607.4				32,067.5 ^{1,2}	24.4%
FY83	Actual	165,441.1	181.2	115,407.0	500.0		15,266.3				34,086.6 ^{1,2}	27.8%
FY84	Actual	241,838.4	596.2	188,422.1	500.0		16,192.2				36,127.9 ^{1,2}	38.0%
FY85	Actual	238,544.3	449.7	200,026.6	500.0	\$14,876.1	17,851.5	\$4,800.0			40.4 ³	36.4%
FY86	Actual	250,490.1	516.8	211,564.2	500.0	15,036.7	18,044.1	4,800.0			28.3 ³	37.0%
FY87	Actual	297,892.0	538.4	259,358.6	500.0	14,853.3	17,827.1	4,800.0			14.6 ³	41.0%
FY88	Actual	311,382.5	672.5	258,762.1	500.0	24,084.5	18,637.1	4,800.0	\$3,890.1		36.2 ³	38.3%
FY89	Actual	346,682.3	882.4	288,780.3	500.0	26,785.4	20,737.1	4,800.0	4,171.7		25.4 ³	37.4%
FY90	Actual	383,096.0	1,664.0	319,290.7	500.0	29,540.7	22,870.2	4,800.0	4,335.5		94.9 ³	37.3%
FY91	Actual	404,146.4	3,403.1	335,739.5	500.0	31,036.1	24,028.3	4,800.0	4,491.1		148.3 ³	37.2%
FY92	Actual	435,715.5	1,799.1	364,323.0	500.0	33,612.2	26,022.6	4,800.0	4,606.1		52.5 ³	38.3%
FY93	Actual	481,357.9	1,163.9	402,819.5	500.0	37,195.6	28,796.9	4,800.0	6,031.2		50.8 ³	38.6%
FY94	Actual	541,503.6	1,739.0	452,684.8	500.0	41,789.3	32,353.2	4,800.0	7,504.3		132.9 ³	38.6%
FY95	Actual	575,751.5	1,767.4	481,568.8	500.0	44,455.1	34,435.8	4,800.0	8,241.1		-16.6 ³	37.4%
FY96	Actual	602,573.0	2,114.2	462,999.7	500.0	46,554.3	36,023.2	4,800.0	8,807.0	40,757.1	17.6	34.3%
FY97	Actual	624,631.8	2,109.4	476,726.1	500.0	48,240.6	37,347.6	4,800.0	9,609.0	45,238.4	0.0	34.3%
FY98	Projected	656,200.0	2,287.0	498,000.0	500.0	50,678.3	39,234.8	4,800.0	10,300.0	50,400.0	0.0	34.0%
FY99	Projected	693,200.0	2,417.0	524,600.0	500.0	53,535.7	41,447.0	4,800.0	11,200.0	54,700.0	0.0	34.1%

Please Note: The column titled "Misc. Dist." is used to display other distributions as noted below.

1. Social Security Trust.
2. Public School Income.
3. Multi-State Tax Compact.

CIGARETTE TAX

Description: (Title 63, Chapter 25, *Idaho Code*)

Cigarette tax collections are based on a rate of one and four-tenths of a cent (1.4 cent) per cigarette or 28 cents per package of 20 cigarettes. Five cents per package of cigarettes are distributed to the Public School Income Fund and five cents are earmarked for County Juvenile Probation Services. Of the remaining 18 cents per package of cigarettes, 43.3% is distributed to the Permanent Building Fund; 6.7% is distributed to the Water Pollution Control Fund; 1% (to a maximum of the legislative appropriation) is distributed to the Central Cancer Registry Fund; 2.5% is distributed to the Cancer Control Fund; and the remainder is distributed to the General Fund.

CIGARETTE TAX RATE AND DISTRIBUTION HISTORY

Effective Date	Rate Per Cigarette	Distribution to PSIF Per Cigarette	Distribution to Juv. Prob. Svcs. Per Cigarette	Distribution of Remaining Receipts as Percent or \$ per Cigarette				
				Gen. Fund	Central Cancer Reg. Fund ²	Perm Build. Fund	Water Poll. Control	Cancer Control Fund
May-1945	\$0.00100			100.0%				
Jul-1947	0.00150			100.0%				
Jul-1955	0.00200			100.0%				
Jul-1959	0.00250			100.0%				
Jul-1961	0.00300			\$0.00250		\$0.00050		
Jul-1963	0.00350			\$0.00300		0.00050		
Jul-1972	0.00455			\$0.00350	\$0.00005 to \$40,000	0.00050	\$0.00050	
Jul-1974	0.00455			Balance	1.099% to \$40,000	10.989%	10.989%	
Jul-1975	0.00455			Balance	1.099% to \$55,000	10.989%	10.989%	
Jul-1978	0.00455			Balance	1.099% to \$70,000	10.989%	10.989%	
Jul-1979	0.00455			Balance	1.099% to \$70,000	10.989%	10.989%	3.645%
Jul-1980	0.00455			Balance	1.099% to \$85,000	10.989%	10.989%	3.645%
Jul-1982	0.00455			Balance	1.099% to \$95,000	10.989%	10.989%	3.645%
Jul-1984	0.00455			Balance	1.099% to \$100,000	10.989%	10.989%	3.645%
Mar-1987	0.00900 ¹			Balance ¹	1.099% to \$100,000	10.989%	10.989%	3.645%
Jul-1987	0.00900			Balance	1.000% to \$100,000	43.300%	6.700%	2.500%
Jul-1989	0.00900			Balance	1.000% to \$110,000	43.300%	6.700%	2.500%
Jul-1994	0.01400	\$0.00500		Balance	1.000% ³	43.300%	6.700%	2.500%
Mar-1995	0.01400	0.00250	\$0.00250	Balance	1.000% ³	43.300%	6.700%	2.500%

1. From March 1, 1987 to July 1, 1987 the additional \$.00445 was all distributed to the General Fund.

2. The Central Cancer Registry Fund receives the lesser of its percentage or its dollar cap.

3. On July 1, 1994 the \$110,000 limit was replaced with a limit not to exceed the legislative appropriation.

Basis of Projection:

The projections of General Fund revenues from this source for FY 1998 and FY 1999 are based on a subjective assessment of recent collections history, Idaho population growth, and the trend toward decreased per capita cigarette consumption.

Historical Data:

CIGARETTE TAX

(\$ THOUSANDS)

			Distributions								
			Perm. Building			Water Pollution	Cancer Control	Central Cancer Registry	Public School Endow.		County Juvenile Probation
Year		Gross Collections	Gen. Fund	Fund	Refunds	Fund	Fund	Fund	Fund	% Share of Total Gen. Fund	
FY70	Actual	\$4,885.9	\$4,188.0	\$697.9						4.3%	
FY71	Actual	5,173.4	4,434.4	739.0						4.2%	
FY72	Actual	6,136.8	5,260.2	876.6						4.3%	
FY73	Actual	8,074.5	6,248.4	867.1		\$919.1		\$40.0		4.3%	
FY74	Actual	8,365.7	6,475.7	925.0		925.0		40.0		3.7%	
FY75	Actual	8,544.4	6,599.6	939.1	\$26.6	939.1		40.0		3.2%	
FY76	Actual	8,866.2	6,868.8	959.9	22.5	959.9		55.0		3.0%	
FY77	Actual	8,980.5	6,926.6	983.8	31.3	983.8		55.0		2.7%	
FY78	Actual	9,098.5	7,010.6	995.0	43.0	995.0		55.0		2.4%	
FY79	Actual	8,919.2	6,841.5	974.2	59.2	974.2		70.0		2.1%	
FY80	Actual	9,009.1	6,580.3	981.9	69.3	981.9	\$325.7	70.0		1.8%	
FY81	Actual	9,331.1	6,802.3	1,017.8	70.7	1,017.8	337.6	85.0		1.8%	
FY82	Actual	9,244.3	6,717.1	1,004.7	99.5	1,004.7	333.2	85.0		1.7%	
FY83	Actual	9,288.9	6,746.1	1,010.8	91.0	1,010.8	335.3	95.0		1.6%	
FY84	Actual	8,989.8	6,523.7	978.0	90.8	978.0	324.4	95.0		1.3%	
FY85	Actual	8,854.8	6,405.2	960.1	114.9	960.1	318.5	96.0		1.2%	
FY86	Actual	8,536.9	6,150.2	922.3	143.9	922.3	305.9	92.2		1.1%	
FY87	Actual	10,552.8	8,193.4	911.8	142.2	911.8	302.4	91.2		1.3%	
FY88	Actual	15,033.9	6,921.0	6,399.8	253.8	989.8	369.5	100.0		1.0%	
FY89	Actual	14,782.8	6,792.8	6,283.4	271.6	972.3	362.8	100.0		0.9%	
FY90	Actual	12,738.7	5,884.3	5,464.3	119.1	845.5	315.5	110.0		0.7%	
FY91	Actual	14,696.2	6,863.4	6,356.8	15.4	983.6	367.0	110.0		0.8%	
FY92	Actual	15,205.6	7,072.3	6,547.2	85.0	1,013.1	378.0	110.0		0.7%	
FY93	Actual	15,029.6	6,995.1	6,490.5	40.0	1,004.3	374.7	125.0		0.7%	
FY94	Actual	16,394.3	7,605.6	7,047.1	119.4	1,090.4	406.9	125.0		0.6%	
FY95	Actual	23,270.6	7,245.6	6,733.5	63.8	1,041.9	388.8	141.0	\$6,537.6	\$1,118.4	0.6%
FY96	Actual	25,228.0	7,476.5	6,944.0	281.9	1,074.5	400.9	141.0	4,454.6	4,454.6	0.6%
FY97	Actual	25,053.3	7,486.5	6,953.0	74.7	1,075.9	401.4	141.0	4,460.4	4,460.4	0.5%
FY98	Projection	24,840.8	7,400.0	6,881.4	119.3	1,064.8	397.3	148.9	4,414.6	4,414.6	0.5%
FY99	Projection	24,513.3	7,300.0	6,790.3	119.3	1,050.7	392.0	148.9	4,356.1	4,356.1	0.5%

BEER TAX

Description: (Title 23, Chapter 10, *Idaho Code*)

A total tax of \$4.65 per 31-gallon barrel, or its equivalent, is levied on beer sold in Idaho. Of the total, 20% is distributed to the Alcoholism Treatment Fund, 33% to the Permanent Building Fund, and the remainder (47%) to the General Fund. Historical rates of the tax and its distribution are listed below.

BEER TAX RATE HISTORY AND DISTRIBUTION MECHANISM

Effective Date	Rate Per 31 Gal. Barrel	Distribution Mechanism
Mar-1935	\$1.55	50% to General Fund (GF); 50% to Public School Income Fund.
Jul-1939	\$1.55	100% to GF.
Jul-1947	\$3.10	100% to GF.
Jul-1961	\$4.65	\$3.10 to GF; \$1.55 to Permanent Building Fund (PBF).
Jul-1980	\$4.65	\$2.17 to GF; \$1.55 to PBF; \$.93 to Alcoholism Treatment Fund (ATF).
Jul-1986	\$4.65	47% to GF; 33% to PBF; 20% to ATF.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1998 and FY 1999 are based on an assessment of recent collections, the slow decline in per capita beer consumption, and Idaho population growth.

Historical Data:

BEER TAX
(\$ THOUSANDS)

		Gross Collections	Distributions				% Share of Total Gen. Fund
			Gen. Fund	Perm. Building Fund	Refunds	Alcoholism Treatment Fund	
Year							
FY70	Actual	\$1,989.6	\$1,326.5	\$663.1			1.3%
FY71	Actual	2,097.3	1,398.3	699.1			1.3%
FY72	Actual	2,316.1	1,544.1	772.0			1.3%
FY73	Actual	2,564.2	1,709.6	854.5			1.2%
FY74	Actual	2,690.0	1,793.4	896.5			1.0%
FY75	Actual	2,938.3	1,959.0	979.3			1.0%
FY76	Actual	3,062.9	2,023.2	1,011.6	\$28.1		0.9%
FY77	Actual	3,241.1	2,144.3	1,072.0	24.8		0.9%
FY78	Actual	3,326.7	2,200.7	1,100.3	25.7		0.7%
FY79	Actual	3,466.0	2,291.6	1,145.7	28.6		0.7%
FY80	Actual	3,516.2	2,326.4	1,163.2	26.6		0.7%
FY81	Actual	3,215.4	1,498.8	1,068.9	4.7	\$642.9	0.4%
FY82	Actual	3,574.6	1,669.0	1,190.5	0.9	714.3	0.4%
FY83	Actual	3,532.0	1,650.3	1,176.0	0.0	705.6	0.4%
FY84	Actual	3,442.5	1,607.0	1,147.1	0.0	688.3	0.3%
FY85	Actual	3,422.2	1,597.5	1,140.1	0.5	684.1	0.3%
FY86	Actual	3,312.6	1,545.5	1,103.5	1.6	662.1	0.3%
FY87	Actual	3,311.6	1,554.9	1,091.8	3.2	661.7	0.2%
FY88	Actual	3,251.7	1,527.6	1,072.6	1.4	650.0	0.2%
FY89	Actual	3,244.5	1,509.9	1,060.1	31.9	642.5	0.2%
FY90	Actual	3,304.6	1,552.1	1,089.8	2.2	660.5	0.2%
FY91	Actual	3,414.7	1,602.5	1,125.2	5.1	681.9	0.2%
FY92	Actual	3,525.6	1,656.9	1,163.4	0.3	705.1	0.2%
FY93	Actual	3,621.6	1,701.6	1,194.7	1.2	724.1	0.2%
FY94	Actual	3,643.1	1,711.8	1,201.9	1.0	728.4	0.1%
FY95	Actual	3,521.7	1,654.1	1,161.4	2.3	703.9	0.1%
FY96	Actual	3,455.6	1,620.9	1,138.1	7.0	689.7	0.1%
FY97	Actual	3,468.6	1,629.9	1,144.4	0.8	693.6	0.1%
FY98	Projection	3,512.7	1,650.0	1,158.5	2.1	702.1	0.1%
FY99	Projection	3,619.1	1,700.0	1,193.6	2.1	723.4	0.1%

WINE TAX

Description: (Title 23, Chapter 13, *Idaho Code*)

A tax of \$0.45 per gallon is levied on wine and beer containing more than 4% alcohol sold in Idaho. Of the total, 12% is distributed to goes to the Alcoholism Treatment Fund, 5% to the Idaho Grape Growers and Wine Producers Commission Fund, and the remainder (83%) to the General Fund. Historical rates of the tax and its distribution are listed in the table below.

WINE TAX RATE HISTORY AND DISTRIBUTION MECHANISM

Effective Date	Rate Per Gallon	State of Origin	Distribution Mechanism
Jul-1971	\$0.45	All	100% to General Fund (GF).
Jul-1980	\$0.45	All	\$0.40 to GF; \$0.05 to Alcoholism Treatment Fund (ATF).
Jul-1984	\$0.20	Idaho	\$0.15 to GF; \$0.05 to ATF.
	\$0.45	Non-Idaho	\$0.40 to GF; \$0.05 to ATF.
Jul-1986	\$0.20	Idaho	88% to GF; 12% to ATF.
	\$0.45	Non-Idaho	88% to GF; 12% to ATF.
Jul-1988	\$0.45	All	88% to GF; 12% to ATF.
Jul-1994	\$0.45	All	83% to GF; 12% to ATF; 5% to Idaho Grape Growers & Wine Producers Commission Fund.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1998 and FY 1999 are based on a subjective assessment of recent collection history, the trend toward lower wine consumption per capita, the rising popularity of microbrewery beers, and Idaho population growth.

Historical Data:

WINE TAX
(\$ THOUSANDS)

Year		Gross Collections	Distributions				% Share of Total Gen. Fund
			Gen. Fund	Refunds	Alcoholism Treatment Fund	ID Grape Growers & Wine Producers Commission	
FY70	Actual	\$0.0	\$0.0				0.0%
FY71	Actual	0.0	0.0				0.0%
FY72	Actual	394.9	394.9				0.3%
FY73	Actual	437.1	437.1				0.3%
FY74	Actual	425.5	425.5				0.2%
FY75	Actual	457.7	457.7				0.2%
FY76	Actual	488.5	470.7	\$17.8			0.2%
FY77	Actual	502.3	485.6	16.7			0.2%
FY78	Actual	591.6	573.0	18.6			0.2%
FY79	Actual	652.5	632.1	20.4			0.2%
FY80	Actual	657.6	629.5	28.1			0.2%
FY81	Actual	609.0	526.9	14.6	\$67.5		0.1%
FY82	Actual	759.1	675.3	0.0	83.8		0.2%
FY83	Actual	778.1	692.2	0.0	85.9		0.2%
FY84	Actual	837.5	744.7	0.0	92.9		0.2%
FY85	Actual	872.4	767.0	6.2	99.2		0.1%
FY86	Actual	955.2	844.7	0.9	109.6		0.1%
FY87	Actual	985.4	862.1	5.7	117.6		0.1%
FY88	Actual	989.1	866.7	4.2	118.2		0.1%
FY89	Actual	905.9	788.7	9.6	107.6		0.1%
FY90	Actual	880.7	771.3	4.2	105.2		0.1%
FY91	Actual	853.2	750.1	0.8	102.3		0.1%
FY92	Actual	907.1	753.1	51.3	102.7		0.1%
FY93	Actual	856.4	750.5	3.5	102.3		0.1%
FY94	Actual	918.4	806.2	2.2	109.9		0.1%
FY95	Actual	1,375.5	1,140.5	0.7	165.0	\$69.3	0.1%
FY96	Actual	1,840.4	1,524.1	4.2	220.3	91.8	0.1%
FY97	Actual	2,005.4	1,663.7	1.0	240.5	100.2	0.1%
FY98	Projection	2,122.7	1,760.0	2.2	254.5	106.0	0.1%
FY99	Projection	2,050.4	1,700.0	2.2	245.8	102.4	0.1%

LIQUOR SURCHARGE

Description: (Title 23, Chapters 2 and 4, *Idaho Code*)

Revenue is derived from a 15% surcharge on the retail price of liquor sold by the State Liquor Dispensary. Idaho Law provides for a transfer of \$4.945 million annually to the General Fund. Other dedicated moneys from the liquor surcharge include: \$1.2 million to the Alcoholism Treatment Fund, \$0.3 million to the Community College Fund, \$1.2 million to the Public School Income Fund, and \$0.65 million to the Cooperative Welfare Fund. Of the balance of the distribution, 40% is distributed to counties and the remaining 60% is distributed to cities.

Historical Data:

LIQUOR SURCHARGE (\$ THOUSANDS)

			Distributions							% Share of Total Gen. Fund
			Gen. Fund	Alcohol Treat. Fund	Community College Fund	Coop. Welfare Fund	Public School Fund	Budget Reserve Fund	Cities & Counties	
Year		Gross Distribu.								
FY70	Actual	\$7,116.0	\$1,910.4							1.9%
FY71	Actual	8,228.1	2,005.5							1.9%
FY72	Actual	8,686.9	2,401.0							2.0%
FY73	Actual	10,497.1	2,814.7							2.0%
FY74	Actual	10,739.6	2,961.7							1.7%
FY75	Actual	9,445.4	2,517.4							1.2%
FY76	Actual	11,371.8	2,786.1	This area intentionally left blank. For more information, please call DFM.						1.2%
FY77	Actual	10,569.5	2,883.4							1.1%
FY78	Actual	11,241.4	3,192.7							1.1%
FY79	Actual	12,138.3	3,369.9							1.0%
FY80	Actual	13,490.0	3,529.6							1.0%
FY81	Actual	14,378.7	3,741.8							1.0%
FY82	Actual	12,914.8	3,948.1							1.0%
FY83	Actual	15,487.2	3,700.0							0.9%
FY84	Actual	15,170.2	3,820.0							0.8%
FY85	Actual	12,780.1	4,945.0	\$1,200.0	\$300.0	\$650.0	\$1,200.0		\$4,485.1	0.9%
FY86	Actual	12,294.5	4,945.0	1,200.0	300.0	650.0	1,200.0		3,999.5	0.9%
FY87	Actual	12,294.8	4,945.0	1,200.0	300.0	650.0	1,200.0		3,999.8	0.8%
FY88	Actual	10,795.0	4,945.0	1,200.0	300.0	650.0	1,200.0		2,500.0	0.7%
FY89	Actual	11,377.9	4,945.0	1,200.0	300.0	650.0	1,200.0		3,082.9	0.6%
FY90	Actual	12,425.0	4,945.0	1,200.0	300.0	650.0	1,200.0		4,130.0	0.6%
FY91	Actual	12,268.3	4,945.0	1,200.0	300.0	650.0	1,200.0		3,973.3	0.5%
FY92	Actual	12,999.1	4,945.0	1,200.0	300.0	650.0	1,200.0		4,704.1	0.5%
FY93	Actual	12,802.8	4,945.0	1,200.0	300.0	650.0	1,200.0		4,507.8	0.5%
FY94	Actual	26,149.3	5,365.0	1,200.0	300.0	650.0	1,200.0	\$6,255.8	11,178.5	0.4%
FY95	Actual	18,449.3	4,945.0	1,200.0	300.0	650.0	1,200.0		10,154.3	0.4%
FY96	Actual	16,578.1	4,945.0	1,200.0	300.0	650.0	1,200.0		8,283.1	0.4%
FY97	Actual	17,295.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	9,122.3	0.4%
FY98	Projection	17,691.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	9,396.0	0.3%
FY99	Projection	17,972.8	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	9,677.8	0.3%

KILOWATT-HOUR TAX

Description: (Title 63, Chapter 27, *Idaho Code*)

Revenue is derived from a one-half mill (\$0.0005) per kilowatt-hour tax on electricity generated in the state of Idaho by water power. Power used by industrial consumers and for irrigation is exempt from this tax. All collections accrue to the General Fund. This tax has been levied since July 1, 1931.

Basis of Projection:

Kilowatt-hour tax receipts for FY 1998 and FY 1999 are based on an assessment of recent collection history in comparison to river flows, water availability, and changes in power generation capacity.

Historical Data:

KILOWATT-HOUR TAX

(\$ THOUSANDS)

		Gross Collections	Distributions		% Share of Total Gen. Fund
			Refunds	Gen. Fund	
Year					
FY70	Actual	\$403.3		\$403.3	0.4%
FY71	Actual	575.0		575.0	0.5%
FY72	Actual	550.3		550.3	0.4%
FY73	Actual	826.1		826.1	0.6%
FY74	Actual	592.8		592.8	0.3%
FY75	Actual	408.1		408.1	0.2%
FY76	Actual	1,255.7	\$88.4	1,167.3	0.5%
FY77	Actual	597.1	0.1	597.0	0.2%
FY78	Actual	510.4	0.0	510.4	0.2%
FY79	Actual	1,651.8	0.0	1,651.8	0.5%
FY80	Actual	1,404.9	0.0	1,404.9	0.4%
FY81	Actual	1,607.5	0.0	1,607.5	0.4%
FY82	Actual	1,755.6	0.0	1,755.6	0.4%
FY83	Actual	2,176.9	0.0	2,176.9	0.5%
FY84	Actual	2,412.7	0.0	2,412.7	0.5%
FY85	Actual	2,270.6	0.0	2,270.6	0.4%
FY86	Actual	2,100.9	0.0	2,100.9	0.4%
FY87	Actual	1,819.2	0.0	1,819.2	0.3%
FY88	Actual	1,487.0	0.0	1,487.0	0.2%
FY89	Actual	1,593.6	0.0	1,593.6	0.2%
FY90	Actual	1,677.0	0.0	1,677.0	0.2%
FY91	Actual	1,783.2	0.0	1,783.2	0.2%
FY92	Actual	1,615.8	5.3	1,610.5	0.2%
FY93	Actual	1,478.7	29.4	1,449.3	0.1%
FY94	Actual	2,125.0	37.0	2,088.0	0.2%
FY95	Actual	1,686.5	0.0	1,686.5	0.1%
FY96	Actual	2,947.0	57.1	2,889.9	0.2%
FY97	Actual	2,973.6	0.0	2,973.6	0.2%
FY98	Projection	2,909.0	9.0	2,900.0	0.2%
FY99	Projection	2,709.0	9.0	2,700.0	0.2%

MINE LICENSE TAX

Description: (Title 47, Chapter 12, *Idaho Code*)

Revenue is derived from a 2% "profit" tax on Idaho mining operations. All collections accrue to the General Fund. This tax has been levied since 1935. It was initially set at 3%, then was lowered to 2% in 1972 where it has remained since.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1998 and FY 1999 are based on a subjective assessment of recent collections history, the current and future levels of employment in mining, and relative minerals prices.

Historical Data:

MINE LICENSE TAX (\$ THOUSANDS)

Year		Gross Collections	Distributions		% Share of Total Gen. Fund
			Refunds	Gen. Fund	
FY70	Actual	\$264.1		\$264.1	0.3%
FY71	Actual	268.2		268.2	0.3%
FY72	Actual	152.9		152.9	0.1%
FY73	Actual	73.9		73.9	0.1%
FY74	Actual	192.8		192.8	0.1%
FY75	Actual	482.0		482.0	0.2%
FY76	Actual	413.6	\$8.1	405.5	0.2%
FY77	Actual	203.2	0.4	202.8	0.1%
FY78	Actual	273.5	4.3	269.2	0.1%
FY79	Actual	552.3	1.4	551.0	0.2%
FY80	Actual	1,905.9	0.4	1,905.5	0.5%
FY81	Actual	2,145.2	27.6	2,117.6	0.5%
FY82	Actual	2,449.4	4.7	2,444.7	0.6%
FY83	Actual	687.6	14.3	673.3	0.2%
FY84	Actual	1,106.2	0.9	1,105.3	0.2%
FY85	Actual	676.1	90.9	585.2	0.1%
FY86	Actual	380.6	12.0	368.7	0.1%
FY87	Actual	283.5	0.3	283.2	0.0%
FY88	Actual	570.8	0.0	570.8	0.1%
FY89	Actual	215.8	2.6	213.2	0.0%
FY90	Actual	278.0	25.0	253.0	0.0%
FY91	Actual	471.8	1.0	470.9	0.1%
FY92	Actual	588.7	3.1	585.7	0.1%
FY93	Actual	441.7	331.8	109.9	0.0%
FY94	Actual	487.6	14.4	473.2	0.0%
FY95	Actual	291.0	1.2	289.9	0.0%
FY96	Actual	800.8	0.0	800.8	0.1%
FY97	Actual	764.7	101.4	663.4	0.0%
FY98	Projection	507.0	7.0	500.0	0.0%
FY99	Projection	507.0	7.0	500.0	0.0%

STATE TREASURER

Description: (Title 67, Chapter 12, *Idaho Code*)

State Treasurer's income is derived from interest on investments of idle state funds. Investments are made in time certificates of deposit, U.S. Treasury bills, and repurchase agreements. The yield from these investments is related to short-term interest rates, coupled with the amount of fund balances available for the Treasurer to invest. All net interest earnings, except those derived from the trust and agency funds, accrue to the General Fund.

For historical data see the "Miscellaneous Revenues" table on page 43.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1998 and FY 1999 are based on an assessment of the State Treasurer's fund balances, forecasts of interest rates, and agency expectations. The FY 1998 projection includes \$3.2 million of net interest earnings by the Treasurer from the issuance of tax anticipation notes.

JUDICIAL BRANCH

Description: (Sections 1-402 and 19-4705, *Idaho Code*)

Revenues are derived from court fees and from 10% of all fines and forfeitures collected pursuant to the judgment of any court of the state, with the exception of Fish and Game law violations, of which 2.5% goes to the General Fund. Certain court fees were raised in FY 1997.

For historical data see the "Miscellaneous Revenues" table on page 43.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1998 and FY 1999 are based on an assessment of recent collection history, fee changes, and Idaho population growth.

DEPARTMENT OF INSURANCE

Description: (Title 41, Chapters 4, 34, and 39, *Idaho Code*)

Idaho's insurance premium tax is applied at a rate of 2.75% of net direct insurance premiums written in the state, except for title insurance, which is taxed at the rate of 1.5%. Property and casualty insurers with 25% or more of their total assets and life insurers with 25% or more of their total life reserves invested in qualifying Idaho investments may qualify for a reduced tax rate of 1.4%.

As a result of legislation in 1995, the two largest hospital/medical service corporations (Blue Cross of Idaho and Medical Service Bureau) converted to mutual insurers and became subject to the Idaho premium tax rate of 2.75% rather than the \$.04 per subscriber head tax. Effective July 1, 1997, as a result of legislation changing Chapter 39, all health maintenance organizations became managed care organizations and under Idaho law beginning January 1, 1998, will pay the premium tax rate rather than the \$.04 per subscriber head tax.

Premium taxes are collected on a quarterly prepayment basis based upon a percentage of the previous year's taxes as reported on the company's filed premium tax return. Prepayment percentages are 60% in June, 20% in September, and 15% in December, with the balance due with the filing in March. The fire insurance premium tax collections are dedicated to the Firemen's Retirement Fund.

The Department of Insurance collects a variety of filing and license fees. These revenues are dedicated to the Insurance Administration Fund to fund operations of the Department of Insurance. At the beginning of each succeeding fiscal year, any balance in the Insurance Administration Fund exceeding the current year appropriation by 25% is transferred to the General Fund.

For historical data see the "Miscellaneous Revenues" table on page 43.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1998 and FY 1999 are based on forecasts of insurance premium growth, trends in insurance rates and coverage, agency records of insurers qualifying for the lower rate, and company insolvencies that result in credits taken for guaranty association assessments. These variables and parameters are then run through a simulation model of the cash-flow process to capture the effects on prepayment, filing reconciliation collections, and refunds. FY 1998 collections will reflect the revenue impact of managed care organizations changing from payment of the \$.04 head tax to tax payment based on the premium tax rate.

DEPARTMENT OF LAW ENFORCEMENT (LIQUOR LAW ENFORCEMENT)

Description: (Title 23, Chapters 9, 10, and 13, *Idaho Code*)

Revenue is derived from the sale of alcoholic beverage licenses to retailers, wholesalers, and manufacturers at a standard fee.

For historical data see the "Miscellaneous Revenues" table on page 43.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1998 and FY 1999 are based on a subjective assessment of recent collection history and Idaho population growth.

UNCLAIMED PROPERTY

Description: (Title 14, Chapter 5, *Idaho Code*)

Unclaimed property from bank accounts, safe deposit boxes, travelers' checks, life insurance policies, utility deposits, and the like accrue to the state after certain holding periods. Beginning in FY 1983, amounts in the Unclaimed Property Fund exceeding \$100,000 were transferred to the General Fund. Prior to that time, the excess was transferred to the Permanent Building Fund. Beginning in FY 1995, the Tax Commission transferred amounts in the Unclaimed Property Fund exceeding \$250,000 to the General Fund.

For historical data see the "Miscellaneous Revenues" table on page 43.

Basis of Projection:

Projections of unclaimed property are based on a subjective assessment of recent collection history.

OTHER DEPARTMENTS AND TRANSFERS

The primary revenue sources for this miscellaneous category are receipts from the Department of Finance, Department of Lands, Department of Administration, Secretary of State, and Department of Agriculture. Other agencies provide lesser amounts on a sporadic basis. Environmental violation penalties assessed by the Division of Environmental Quality are an irregular income source. The annual transfers to the General Fund from the Public Utilities Commission and from the Federal Power Act (through the State Treasurer) are also included. However, the unpredictable nature of other items included in this source is evidenced by the collection history.

For historical data see the "Miscellaneous Revenues" table on page 43.

Basis of Projection:

The projections of miscellaneous General Fund revenues for FY 1998 and FY 1999 are based on a subjective assessment of recent collection history and expected transfers.

MISCELLANEOUS REVENUES
(\$THOUSANDS)

Year		Distributions to General Fund											
		State	% of	Judicial	% of	Dept.	% of	Dept. of Law	% of	Un-	% of	Other Depts.	% of
		Treasurer	Gen. Fund	Branch	Gen. Fund	Insurance	Gen. Fund	Enforcement (Liq. Law)	Gen. Fund	Claimed Property	Gen. Fund	and Transfers	Gen. Fund
FY70	Actual	\$3,216.1	3.3%	\$1.8	0.0%	\$4,831.5	4.9%	\$444.2	0.5%	\$0.0	0.0%	\$2,347.0	2.4%
FY71	Actual	3,151.1	3.0%	310.5	0.3%	5,345.7	5.0%	477.3	0.5%	0.0	0.0%	1,369.6	1.3%
FY72	Actual	2,172.5	1.8%	868.1	0.7%	6,024.1	4.9%	526.0	0.4%	0.0	0.0%	2,624.6	2.1%
FY73	Actual	3,055.8	2.1%	1,056.4	0.7%	6,664.1	4.6%	530.6	0.4%	0.0	0.0%	3,215.6	2.2%
FY74	Actual	5,895.8	3.4%	1,188.1	0.7%	7,471.6	4.2%	555.0	0.3%	0.0	0.0%	1,857.6	1.1%
FY75	Actual	7,790.3	3.8%	1,141.5	0.6%	7,945.6	3.9%	573.4	0.3%	0.0	0.0%	1,762.7	0.9%
FY76	Actual	7,013.4	3.1%	1,242.0	0.5%	8,915.8	3.9%	593.0	0.3%	0.0	0.0%	2,654.3	1.2%
FY77	Actual	5,529.3	2.2%	1,268.1	0.5%	10,693.5	4.2%	624.7	0.2%	0.0	0.0%	1,612.5	0.6%
FY78	Actual	5,465.2	1.9%	1,446.6	0.5%	12,175.2	4.1%	654.4	0.2%	0.0	0.0%	2,184.2	0.7%
FY79	Actual	7,382.4	2.2%	1,618.6	0.5%	13,555.0	4.1%	670.4	0.2%	0.0	0.0%	2,027.4	0.6%
FY80	Actual	12,946.3	3.6%	1,894.8	0.5%	14,894.7	4.2%	719.6	0.2%	0.0	0.0%	2,232.4	0.6%
FY81	Actual	10,257.4	2.6%	1,850.8	0.5%	14,845.9	3.8%	918.9	0.2%	0.0	0.0%	2,412.5	0.6%
FY82	Actual	12,282.6	3.0%	2,036.1	0.5%	15,442.0	3.8%	911.5	0.2%	0.0	0.0%	2,620.1	0.6%
FY83	Actual	8,663.9	2.1%	2,109.6	0.5%	22,345.0	5.4%	939.6	0.2%	175.3	0.0%	7,534.9	1.8%
FY84	Actual	12,227.9	2.5%	2,154.9	0.4%	16,730.0	3.4%	932.2	0.2%	597.0	0.1%	2,037.9	0.4%
FY85	Actual	10,931.1	2.0%	2,355.3	0.4%	18,329.8	3.3%	1,033.8	0.2%	1,304.9	0.2%	6,244.1	1.1%
FY86	Actual	9,549.6	1.7%	2,544.1	0.4%	20,867.5	3.7%	1,052.5	0.2%	906.7	0.2%	7,381.5	1.3%
FY87	Actual	7,615.7	1.2%	2,800.7	0.4%	21,257.1	3.4%	1,059.9	0.2%	866.3	0.1%	11,446.6 ¹	1.8%
FY88	Actual	10,010.0	1.5%	2,860.1	0.4%	31,182.3	4.6%	1,035.8	0.2%	997.7	0.1%	3,191.0 ²	0.5%
FY89	Actual	16,178.4	2.1%	3,135.9	0.4%	26,217.5	3.4%	1,033.9	0.1%	744.9	0.1%	4,555.1 ³	0.6%
FY90	Actual	17,552.6	2.0%	3,426.1	0.4%	25,209.2	2.9%	1,081.5	0.1%	1,155.7	0.1%	3,503.0 ⁴	0.4%
FY91	Actual	19,387.7	2.2%	3,331.7	0.4%	28,643.7	3.2%	994.5	0.1%	1,145.4	0.1%	3,605.7 ⁵	0.4%
FY92	Actual	11,810.0	1.2%	3,390.7	0.4%	31,944.9	3.4%	1,010.2	0.1%	1,353.3	0.1%	3,976.7 ⁶	0.4%
FY93	Actual	10,540.0	1.0%	3,210.0	0.3%	28,810.0	2.8%	960.0	0.1%	1,335.5	0.1%	1,820.0	0.2%
FY94	Actual	10,611.2	0.9%	3,721.9	0.3%	33,193.5	2.8%	1,039.0	0.1%	1,707.9	0.1%	5,688.4 ⁷	0.5%
FY95	Actual	15,000.0	1.2%	3,894.0	0.3%	34,934.6	2.7%	1,072.3	0.1%	2,089.2	0.2%	4,489.7 ⁸	0.3%
FY96	Actual	18,541.4	1.4%	4,244.8	0.3%	36,126.4	2.7%	1,047.9	0.1%	1,387.1	0.1%	4,507.3 ⁹	0.3%
FY97	Actual	18,243.0	1.3%	4,707.9	0.3%	40,262.5	2.9%	1,140.9	0.1%	829.4	0.1%	3,407.7 ¹⁰	0.2%
FY98	Projected	18,300.0	1.3%	4,800.0	0.3%	41,376.4	2.8%	1,200.0	0.1%	500.0	0.0%	3,600.0 ¹¹	0.2%
FY99	Projected	13,600.0	0.9%	4,900.0	0.3%	41,965.4	2.7%	1,250.0	0.1%	750.0	0.0%	1,360.0	0.1%

1. Includes a one-time transfer totaling \$9,337,000 from the Water Pollution Control Fund.
2. Includes a one-time reversion of \$204,400 from the University of Idaho
3. Includes offsetting transfers of \$2.0 million from and to the Water Pollution Control Fund; and \$300,000 borrowed and repaid by the Lottery Commission
4. Includes off-setting transfer of \$1,000,000 borrowed and repaid by the Lottery Commission.
5. Includes on-time transfer of \$125,000 from the Department of Insurance and \$200,000 from the Parks Land Trust.
6. Includes \$513,894 in one-time transfer from State Treasurer's interagency billing and receipts fund in FY 1992.
7. Transfers of: \$3,000,000 from Budget Reserve Fund; \$420,000 from Liquor Fund; and approximately \$350,000 from Department of Finance.
8. Includes a \$1,858,000 transfer from the Department of Finance.
9. Includes a \$1,517,000 transfer from the Department of Finance and a \$145,000 transfer from the Secretary of State.
10. Includes a \$1,117,000 transfer from the Department of Finance.
11. Includes a \$1,567,000 transfer from the Department of Finance.

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Idaho's Tax Structure

Exemptions, Credits, Exclusions and Deductions

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INTRODUCTION

This report is a comprehensive guide to the structure of Idaho's primary General Fund revenue sources. It provides a detailed examination of the various departures from the broadly defined *base* of the income and sales taxes. These two taxes supply well over 90% of the revenue that goes to the General Fund.

The everyday vernacular refers to these departures from the tax base as *tax breaks*. An analogous term used by fiscal analysts is *tax expenditures*. The most common forms they take in the codification of taxes are exemptions, credits, exclusions, and deductions. The end result is always the same: a tax that is defined on the basis of a broad economic concept (income, consumption, wealth, etc.) is not applied uniformly against the broad base of the tax.

The following pages provide both an inventory and an explanation of Idaho's sales and income tax expenditures. The goal is to facilitate greater understanding of these important elements of Idaho's overall fiscal structure. It is not an attempt to judge the merits of any particular tax expenditure.

The definition of a tax expenditure (for the purpose of this report) is *any provision of Idaho law that excludes some portion of the tax base on a selective basis*. Two illustrative examples are the sales tax exemption for prescription drugs and the income tax exclusion for interest earned on certain government-issued securities. In the first case a specific type of consumption (prescription drugs) is excused from the sales and use tax. In the second case a specific source of income (interest from government-issued securities) is excused from the income tax.

Limiting the definition of tax expenditures to Idaho tax provisions is arbitrary, and is primarily done to limit the scope of this publication. Indeed, many federal income tax provisions have the effect of granting large tax expenditures within Idaho. The mortgage interest deduction is a good example. Although nothing technically prevents Idaho from treating mortgage interest different than the federal tax law, the practical ramifications prevent Idaho from making large deviations from federal tax law. Consequently, this report ignores tax expenditures that originate in federal tax law. It does, however, look at Idaho departures from the federal tax structure and treats them as Idaho-specific tax expenditures.

Some apparent tax breaks are not really tax expenditures, because their impacts lie outside of the basic definition of the tax base. The sales tax "exemption" for goods purchased for resale is one such case. This is because the sales tax is intended to apply to retail sales, and the "exemption" for goods purchased for resale is the statutory mechanism used to differentiate between retail and wholesale trade. The income tax rate brackets are another example of a tax policy that impacts the amount of revenue produced from the fundamental tax base, but are not considered a selective "exemption" for purposes of this report. That's because all income that falls into a particular bracket is taxed at that bracket's rate, regardless of the overall income (or any other characteristic) of the taxpayer.

This report includes estimates of the cost of each tax expenditure. This is an estimate of how much tax payment is being avoided by the beneficiaries of the tax expenditure. It is not an estimate of the revenue that would be raised by eliminating the tax expenditure. Several additional factors need to be considered when producing a revenue estimate associated with any particular tax law change.

In many cases, especially those involving substantial structural changes, tax law changes could reasonably be expected to change the economic behavior of taxpayers. The fiscal estimates included in this report are based on current economic behavior, meaning they reflect an environment that includes the effect of the tax expenditure. It should be noted that in many cases even the fiscal estimates based on the actual tax structure are difficult to produce. Attempting to factor in behavioral adjustments can add a substantial amount of complexity to the fiscal analysis.

Another factor that is not reflected in these fiscal estimates is the amount of tax gap. The tax gap is the difference between the theoretical amount of revenue associated with eliminating a particular tax expenditure and the actual revenue that would be realized. The probable size of the “tax gap” is impacted by a number of variables, including the manner in which a tax exemption is removed and the amount of resources that are allocated to compliance and collection efforts. Clearly these are variables that are “unknowable” prior to any specific proposal for law changes.

Tax expenditures are placed in the law for a variety of reasons. The primary reasons are to encourage a particular behavior on the part of taxpayers, to provide fiscal relief to particular taxpayers, or to simplify the administration of the tax laws.

In many cases, tax expenditures have an alternative, appropriation-based method for accomplishing the policy objective behind the tax expenditure. Often, the appropriation-based alternative will have significant differences (relative to the tax expenditure) in terms of overhead cost and public policy ramifications.

Overhead cost comparisons associated with tax expenditures vs. appropriations depend on the specific circumstances of the particular tax expenditure/appropriation alternative being considered, and the “value” of both is difficult to examine.

This is particularly the case with sales and income tax expenditures that are made in the context of confidential tax returns. This means that the beneficiaries are only known to the tax authorities. The secrecy of sales and income tax information is protected under felony penalty provisions. The confidentiality associated with tax expenditures seriously inhibits close scrutiny, and makes it difficult or impossible to establish the “value” (as opposed to the cost) of the tax expenditure.

Tax expenditures “cost” the public in the form of lost revenue that could otherwise be used to fund appropriations or reduce tax rates. However, the estimates of the amount of lost revenue contained in this report do not take into consideration the overhead that would be needed to collect the lost revenue. That overhead can vary from very large, as in the case of tax expenditures that are for the purpose of simplifying tax administration, to negative, as in the case of a tax expenditure that in itself increases the administrative costs associated with the particular tax.

INDIVIDUAL AND CORPORATE INCOME TAX

The Idaho income tax is a tax levied on individuals and corporations based on their income during a 12-month tax period. In the case of businesses (proprietorships, partnerships, and corporations) the concept of income is not gross receipts, but rather is most closely associated with the economic concept of profit.

The rate of Idaho's income tax is a flat 8% on corporate income and a maximum of 8.2% on individual income. The individual income tax rate is graduated on taxable income below \$40,000 for married taxpayers and below \$20,000 for single taxpayers. Rates on individuals vary from a low of 2% (on incomes below \$2,000 and \$1,000 for married and single taxpayers, respectively) to the top rate of 8.2%.

The tax expenditures granted under the income tax can be classified into two principle categories: exemptions based on the source of income (exclusions); and exemptions based on the use of income (deductions and credits). Source exemptions include interest from government securities, capital gains, and social security payments. Use exemptions include donations to educational institutions and purchases of equipment used in business enterprises. Notable features of the income tax structure that are within Idaho's policy discretion but are not considered tax expenditures include: the rate brackets, personal exemptions, and standard deductions. These features of the tax structure have the effect of reducing revenues, but they are not selective with regard to whom they apply.

A special note concerning tax expenditure definitions is relevant in the case of the income tax. Since the foundation of the Idaho income tax is federal adjusted gross income, there are a number of federal tax expenditures that are adopted in Idaho by default. These federal tax expenditures could technically be considered Idaho tax expenditures, since Idaho adopts them by law. However, this report takes the approach that federal tax expenditures related to the definition of taxable income are **not** Idaho tax expenditures. Thus, the federal tax expenditure associated with the mortgage interest deduction is not considered an Idaho tax expenditure. Similarly, Idaho's exclusion of social security income from the income tax base is treated as an Idaho tax expenditure only to the extent that it exceeds the partial federal exclusion for social security income.

The principal Idaho income tax expenditures relating to uses of income are:

- Investment Tax Credit
- Other States Tax Credit
- Elderly Dependent Credit
- Youth and Rehabilitation Credit
- Schools, Libraries, and Museums Credit
- Grocery Credit
- Technological Equipment Deduction
- Alcohol/Gasohol Production Deduction
- Alternative Energy Device Deduction
- Insulation Deduction
- Workers' Compensation Premium Deduction
- Child Care Deduction

Personal Care Services Deduction
Medical Assistance Account Deduction
Elderly and Development Disability Deduction
Adoption Expense Deduction
Medical Savings Account Deduction
Conservation and Weatherization Deduction
Riparian Land Improvements

The principal Idaho income tax expenditures relating to sources of income are:

Capital Gains Exclusion
Government Interest Exclusion
Social Security Exclusion
Railroad Retirement Exclusion
Retirement Benefit Exclusion
Idaho Lottery Winnings Exclusion
Indian Earnings on Reservation Exclusion
World War II Reparations Exclusion

SALES AND USE TAX

The Idaho sales tax is a transaction tax levied on the purchase or use of goods and services by consumers, where consumers may be either individuals or businesses. Transactions involving purchases by businesses are included in the sales tax base if the goods or services are consumed by the purchasing business. Transactions involving purchases of goods or services for resale (including components or parts used in manufactured goods) are not considered a part of the sales tax base. The legal incidence of the Idaho sales tax is on the purchaser. Sales taxes are distant relatives of value-added taxes.

The rate of Idaho's sales tax is a flat 5%. No partial exemptions exist (that is, nothing is taxed at a rate below 5% but above 0%).

Consumption, as an economic concept, can be divided into consumption of goods and consumption of services. The purchase of a hotel room is classified as a service, since it is only the right to use the hotel room for a limited time that it is being purchased. Purchase of a tent is classified as a good since the buyer becomes the owner of a tangible item. An interesting characteristic of Idaho's sales tax is that unless specifically exempted, purchase of a tangible good is a taxable event. On the other hand, the purchase of a service is generally not taxable unless the service is specifically included in the list of taxable transactions. Three major service categories that are completely taxable (and therefore are excluded from this compilation of tax expenditures) are "Hotels and Other Lodging Places" (SIC Major Group 70), "Amusement and Recreation Services" (SIC Major Group 79), and "Motion Pictures" (SIC Major Group 78).

The tax expenditures granted under the sales tax can be classified in three principal categories: exemptions based on the *use* of the good or service, exemptions based on the *specific good or service* being purchased, and exemptions based on the *individual or entity* making the purchase or sale.

Principal Idaho sales tax expenditures relating to specific uses are:

- Production Exemption - Equipment
- Production Exemption - Supplies
- Irrigation Equipment and Supplies
- Pollution Control Equipment
- Broadcast Equipment and Supplies
- Publishing Equipment and Supplies
- Commercial Aircraft
- Railroad Rolling Stock and Remanufacturing
- Interstate Trucks
- Out-of-State Contracts
- Trade-in Value
- Sales of Businesses or Business Assets
- Food Stamps/WIC
- Motor Vehicles Used Outside of Idaho
- Common Carrier Purchases and Out-of-State Sales
- Donations of Real Property to Idaho Government

Incidental Sales of Tangible Personal Property
Lodging, Eating, and Drinking Places
School Lunches and Senior Citizen Meals
Drivers Education Automobiles
Ski Lifts and Snowgrooming Equipment

Principal Idaho sales tax expenditures relating to specific goods and services are:

Goods Not Taxed

Motor Fuels
Heating Materials
Utility Sales
Used Mobile Homes
Vending Machines and Amusement Devices
Prescriptions and Durable Medical Equipment
Funeral Caskets
Containers
Nonprofit Literature
Official Documents
Precious Metal Bullion
New Manufactured Homes or Modular Buildings
Telecommunications Equipment

Services Not Taxed

Construction
Agricultural and Industrial Services
Transportation Services
Communications
Repairs
Professional Services
Business Services
Personal Services
Health and Medical Services
Social Services
Educational Services
Lottery Tickets and Pari-Mutuel Betting
Media Measurement Services
Miscellaneous Services

Principal Idaho sales tax expenditures relating to specific entities are:

Educational Institution Purchases
Hospital Purchases
Health Entity Purchases
Canal Company Purchases

Forest Protective Association Purchases
Food Bank Purchases
Nonsale Clothier Purchases
Centers for Independent Living
State of Idaho and Local Government Purchases
Ronald McDonald House Rooms
INEEL R&D Purchases
Motor Vehicle Purchases by Family Members
Sales by 4-H and FFA Clubs at Fairs
Sales by Non-Retailers (Yard and Occasional Sales)
Sales by Indian Tribes on Reservations
Sales of Meals by Churches to Members
Sales by Outfitters and Guides
Sales Through Vending Machines
Auto Manufacturer Rebates
Incidental Sales of Churches
Federal Excise Tax Imposed at Retail Level
Federal Constitutional Prohibitions
Federal and State Statutory Prohibitions

Idaho's Tax Structure

Fiscal Summary

\$ Thousands

<u>1.00 Income Tax Expenditure</u>		<u>CY 1994</u>	<u>CY 1995</u>	<u>CY 1996</u>	<u>CY 1997</u>	<u>CY 1998</u>	<u>CY 1999</u>
Uses of Income Not Taxed							
1.01	Investment Tax Credit	\$42,694	\$47,097	\$51,047	\$55,296	\$59,346	\$62,420
1.02	Other States Tax Credit	\$17,881	\$20,337	\$21,447	\$22,498	\$23,707	\$25,074
1.03	Elderly Dependent Credit	\$255	\$254	\$260	\$266	\$271	\$276
1.04	Youth & Rehabilitation Credit	\$2,341	\$2,769	\$2,839	\$2,943	\$3,061	\$3,163
1.05	Schools, Libraries, and Museums Credit	\$1,872	\$2,019	\$2,129	\$2,234	\$2,354	\$2,489
1.06	Grocery Credit	\$17,182	\$17,524	\$17,929	\$18,336	\$18,746	\$19,185
1.07	Recycling Equipment Credit	\$59	\$41	\$50	\$50	\$50	\$50
1.08	Technological Equipment Deduction	\$36	\$42	\$44	\$46	\$48	\$50
1.09	Alcohol/Gasohol Production Deduction	\$3	\$3	\$3	\$3	\$3	\$3
1.10	Alternative Energy Devices Deduction	\$231	\$302	\$318	\$334	\$352	\$372
1.11	Insulation Deduction	\$389	\$435	\$459	\$481	\$507	\$536
1.12	Workers' Comp. Premium Deduction	\$400	\$400	\$400	\$400	\$400	\$400
1.13	Child Care Deduction	\$2,769	\$2,894	\$2,950	\$3,004	\$3,055	\$3,111
1.14	Personal Care Services Deduction	\$1	\$1	\$1	\$1	\$1	\$1
1.15	Medical Assistance Account Deduction	\$1	\$1	\$1	\$1	\$1	\$1
1.16	Elderly & Developmentally Dis. Deduction	\$9	\$9	\$9	\$9	\$9	\$9
1.17	Adoption Expense Deduction	\$36	\$36	\$36	\$36	\$36	\$36
1.18	Medical Savings Account Deduction	\$0	\$223	\$236	\$247	\$260	\$275
1.19	Conservation and Weatherization Deduction	\$0	\$0	\$0	\$0	\$0	\$0
1.20	Riparian Land Improvements	\$0	\$0	\$0	\$0	\$0	\$250
Sources of Incomes Not Taxed							
1.21	Capital Gains Exclusion	\$9,291	\$7,994	\$8,431	\$8,843	\$9,319	\$9,856
1.22	Government Interest Exclusion	\$5,559	\$6,120	\$6,275	\$6,504	\$6,766	\$6,990
1.23	Social Security Exclusion	\$9,860	\$12,018	\$12,701	\$13,410	\$14,301	\$15,310
1.24	Railroad Retirement Exclusion						
1.25	Retirement Benefit Exclusion	\$2,452	\$2,837	\$2,999	\$3,166	\$3,377	\$3,615
1.26	Idaho Lottery Winnings Exclusion	\$2,489	\$3,539	\$3,978	\$4,180	\$3,477	\$3,612
1.27	Indian Earnings on Reservation Exclusion	\$247	\$264	\$279	\$292	\$308	\$326
1.28	World War II Reparations Exclusion	\$0	\$0	\$0	\$0	\$0	\$0
<u>2.00 Sales Tax Expenditures</u>		<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Specific Uses Not Taxed							
2.01	Production Exemption - Equipment	\$50,751	\$54,376	\$59,405	\$64,576	\$67,921	\$71,682
2.02	Production Exemption - Supplies	\$38,418	\$41,163	\$44,970	\$48,884	\$51,416	\$54,263
2.03	Irrigation Equipment & Supplies	\$2,147	\$2,200	\$2,256	\$2,312	\$2,370	\$2,429
2.04	Pollution Control Equipment	\$2,268	\$2,390	\$2,600	\$2,796	\$2,909	\$3,044
2.05	Broadcast Equipment & Supplies	\$1,062	\$1,138	\$1,243	\$1,351	\$1,421	\$1,500
2.06	Publishing Equipment & Supplies	\$68	\$73	\$80	\$87	\$91	\$96
2.07	Commercial Aircraft	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
2.08	Railroad Rolling Stock & Remanufacturing	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125
2.09	Interstate Trucks	\$3,366	\$4,212	\$5,249	\$6,951	\$9,166	\$12,314
2.10	Out-of-State Contracts	\$1,770	\$1,896	\$2,072	\$2,252	\$2,369	\$2,500
2.11	Trade-in Value	\$14,354	\$14,965	\$14,873	\$15,302	\$15,742	\$15,992
2.12	Sale or Lease of Businesses or Business Assets	\$840	\$900	\$983	\$1,069	\$1,124	\$1,186
2.13	Food Stamps/WIC	\$3,485	\$3,574	\$3,685	\$3,786	\$3,914	\$4,052
2.14	Motor Vehicles Used Outside of Idaho	\$8,017	\$8,359	\$8,307	\$8,547	\$8,793	\$8,933

2.00 Sales Tax Expenditures		FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
2.15	Common Carrier Purch. & Out-of-State Sales	NA	NA	NA	NA	NA	NA
2.16	Donations of Real Property to Idaho Gov't	\$3	\$3	\$3	\$3	\$3	\$3
2.17	Incidental Sales of Tangible Personal Property	\$10	\$10	\$10	\$10	\$10	\$10
2.18	Lodging, Eating, & Drinking Places	\$32	\$33	\$35	\$36	\$37	\$39
2.19	School Lunches & Senior Citizen Meals	\$1,575	\$1,659	\$1,759	\$1,840	\$1,919	\$2,014
2.20	Drivers Education Automobiles	\$30	\$31	\$32	\$32	\$32	\$33
2.21	Ski Lifts and Snowgrooming Equipment	\$0	\$500	\$500	\$500	\$500	\$500
Goods Not Taxed							
2.22	Motor Fuels	\$32,856	\$33,720	\$35,745	\$36,198	\$38,107	\$39,330
2.23	Heating Materials	\$2,082	\$2,274	\$2,339	\$2,307	\$2,205	\$2,149
2.24	Utility Sales	\$41,996	\$42,990	\$43,976	\$44,957	\$45,991	\$47,059
2.25	Used Mobile Homes	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300
2.26	Vending Machines & Amusement Devices	\$0	\$0	\$0	\$0	\$0	\$0
2.27	Prescriptions & Durable Medical Equipment	\$8,659	\$9,075	\$9,584	\$10,161	\$10,762	\$11,448
2.28	Funeral Caskets	\$548	\$579	\$615	\$652	\$688	\$725
2.29	Containers	\$15	\$15	\$16	\$17	\$17	\$18
2.30	Nonprofit Literature	\$72	\$73	\$75	\$77	\$79	\$80
2.31	Official Documents	\$40	\$41	\$42	\$43	\$44	\$45
2.32	Precious Metal Bullion	\$465	\$465	\$465	\$465	\$465	\$465
2.33	New Manufactured Homes or Modular Buildings	\$1,123	\$1,162	\$1,183	\$1,227	\$1,272	\$1,318
2.34	Telecommunication Equipment	\$0	\$0	\$340	\$374	\$411	\$453
Services Not Taxed							
2.35	Construction	\$70,261	\$74,486	\$78,165	\$80,967	\$83,375	\$86,882
2.36	Agricultural & Industrial Services	\$2,840	\$2,980	\$3,123	\$3,260	\$3,412	\$3,580
2.37	Transportation Services	\$8,677	\$9,407	\$10,102	\$10,731	\$11,314	\$11,789
2.38	Communications	\$21,851	\$23,025	\$23,624	\$24,227	\$24,851	\$25,496
2.39	Repairs	\$17,518	\$18,529	\$19,664	\$20,859	\$22,004	\$23,188
2.40	Professional Services	\$70,873	\$74,964	\$79,558	\$84,392	\$88,983	\$93,771
2.41	Business Services	\$19,240	\$20,351	\$21,598	\$22,910	\$24,167	\$25,468
2.42	Personal Services	\$6,160	\$6,515	\$6,915	\$7,335	\$7,737	\$8,154
2.43	Health & Medical Services	\$102,504	\$107,433	\$113,458	\$120,289	\$127,402	\$135,518
2.44	Social Services	\$29,915	\$31,641	\$33,580	\$35,621	\$37,575	\$39,597
2.45	Educational Services	\$8,533	\$9,026	\$9,579	\$10,161	\$10,718	\$11,295
2.46	Lottery Tickets & Pari-Mutuel Betting	\$7,310	\$7,269	\$7,485	\$7,937	\$8,303	\$8,561
2.47	Media Measurement Services	\$0	\$0	\$0	\$0	\$40	\$41
2.48	Miscellaneous Services	\$7,865	\$8,230	\$8,631	\$9,051	\$9,458	\$6,947
Specific Entities Not Taxed							
2.49	Educational Institution Purchases	\$4,079	\$4,283	\$4,494	\$4,549	\$4,641	\$4,742
2.50	Hospital Purchases	\$8,221	\$8,616	\$9,100	\$9,648	\$10,218	\$10,869
2.51	Health Entity Purchases	\$72	\$75	\$79	\$83	\$87	\$92
2.52	Canal Company Purchases	\$616	\$630	\$646	\$658	\$672	\$689
2.53	Forest Protective Association Purchases	\$27	\$28	\$28	\$29	\$30	\$30
2.54	Food Bank Purchases	\$68	\$71	\$75	\$79	\$83	\$87
2.55	Nonsale Clothier Purchases	\$1	\$1	\$1	\$1	\$1	\$1
2.56	Centers for Independent Living	\$0	\$0	\$0	\$3	\$3	\$3
2.57	State of Idaho and Local Government Purchases	\$9,831	\$10,493	\$11,195	\$11,532	\$11,942	\$12,333
2.58	Ronald McDonald House Rooms	\$0	\$0	\$1	\$1	\$1	\$1
2.59	INEEL R&D Purchases	\$2,162	\$2,323	\$2,554	\$2,751	\$2,866	\$3,004
2.60	Motor Vehicle Purchases by Family Members	\$941	\$981	\$975	\$1,003	\$1,032	\$1,048
2.61	Sales by 4-H & FFA Clubs at Fairs	\$23	\$23	\$23	\$23	\$23	\$23
2.62	Sales by Non-Retailers (Yard & Occas.	\$1,235	\$1,295	\$1,363	\$1,435	\$1,506	\$1,578

<u>2.00 Sales Tax Expenditures</u>		<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
	Sales)						
2.63	Sales by Indian Tribes on Reservations	\$2,066	\$2,130	\$2,220	\$2,306	\$2,394	\$2,489
2.64	Sales of Meals by Churches to Members	\$6	\$6	\$6	\$6	\$6	\$7
2.65	Sales by Outfitters & Guides	\$13	\$13	\$13	\$13	\$13	\$13
2.66	Sales Through Vending Machines	\$1,084	\$1,112	\$1,147	\$1,178	\$1,218	\$1,261
2.67	Auto Manufacturer Rebates	\$310	\$324	\$322	\$331	\$340	\$346
2.68	Incidental Sales of Churches	\$309	\$324	\$341	\$360	\$377	\$395
2.69	Federal Excise Tax Imposed at Retail Level	NA	NA	NA	NA	NA	NA
2.70	Federal Constitutional Prohibitions	NA	NA	NA	NA	NA	NA
2.71	Other Federal & State Statutory Prohibitions	NA	NA	NA	NA	NA	NA

TAX STRUCTURE DETAIL

Specific Idaho tax expenditures are detailed in the sections below. Each section contains the expenditure's *Idaho Code* reference, a brief description of its features, and its significant legislative and judicial history.

INDIVIDUAL AND CORPORATE INCOME TAX

Income tax expenditures fall into one of three categories: exclusions, deductions, or credits. Exclusions are sources of income that are wholly or partially exempt from taxation. Deductions are uses of income (either actual spending or proxies for actual spending) that are wholly or partially exempt from taxation. Credits are deductions from the tax itself that are expressed either as a percentage of some qualifying amount or as a lump sum. Credits may be further divided into those that are refundable, meaning that they can exceed the taxpayer's tax liability and actually lead to a refund, and those that are non-refundable, meaning that they are only usable if there is a tax liability to offset.

In general, deductions and exclusions must be used in the year they are incurred, with the exception of business net operating loss (NOL) carry forwards. Credits may be carried forward for limited time periods in certain cases where specifically authorized in the law.

One notable feature that applies to all income tax expenditures is their interaction with federal income tax. Unlike the sales tax, the Idaho income tax is deductible from federal income taxes. This applies to all corporate taxpayers and to individual taxpayers who itemize their deductions. This means that the "benefit" of an Idaho income tax expenditure is split between Idaho taxpayers and the federal treasury. The terms of the split depend on the marginal federal tax rate of the taxpayer. For a taxpayer in the 36% federal bracket, the benefit of each dollar of Idaho tax expenditure is split \$.64 to the taxpayer, \$.36 to the federal treasury. This feature of the income tax is particularly significant in assessing the cost effectiveness of an Idaho tax expenditure as an incentive for some particular behavior.

1.01 Investment Tax Credit *Idaho Code 63-3029B*

Description: Idaho's investment tax credit (ITC) is provided to businesses (proprietorships, partnerships, and corporations) that purchase qualifying property for use in their business. The credit amount is 3% of the qualified investment in depreciable property and is not refundable. The credit taken in a given tax year is limited to no more than 45% of the taxpayer's tax liability as calculated before considering the credit. Credits not used may be carried forward up to seven years from the year of qualifying property purchase. The definition of qualified investment is tied to the old federal ITC (repealed in the Tax Reform Act of 1986), with the exceptions that: a) the equipment must have Idaho situs; and b) motor vehicles under 8,000 pounds do not qualify. Mobile property that is only partially used in Idaho is allowed ITC in proportion to its use in Idaho.

History: Idaho's ITC was enacted in 1982. It was amended in 1987 to prevent its automatic repeal by the federal repeal of ITC in 1986. It was amended in 1992 in response to an Idaho Supreme Court case that changed the interpretation of how the credit is applied to equipment that is used both inside and outside Idaho. It was amended in 1994 to

make technical changes relating to unitary corporations. It was amended in 1995 to extend the carryover period from five to seven years, reduce the portion of tax liability that could be offset from 50% to 45%, and eliminated a restriction on replacement property.

1.02 Other States Tax Credit *Idaho Code 63-3029*

Description: The credit for taxes paid to other states is available to Idaho resident and part-year resident taxpayers who must pay income tax to another state or territory (or political subdivision thereof) on income that is also taxed by Idaho. The amount of credit is the lesser of the actual tax paid to the other state or territory, or the portion of Idaho tax attributed to the double-taxed income. The Idaho credit is not allowed if the other state or territory provides a credit for taxes paid to Idaho.

History: Initially enacted in 1939 along with the Idaho Income Tax Act. Amended in 1996 to add corporate income, franchise, or excise taxes paid by a subchapter S corporation.

1.03 Elderly Dependent Credit *Idaho Code 63-3025D*

Description: This is a refundable credit provided to a resident taxpayer who maintains a household for a family member(s), where that family member is over 65 years of age or developmentally disabled and the taxpayer provides over one-half of the family member's support. The amount of credit is \$100 for each such family member, with no more than \$300 available to the taxpayer in any single year. This credit is allowed in lieu of the elderly and development disability deduction allowed under *Idaho Code*, Section 63-3022E (see item 1.16).

History: Enacted in 1981. Amended in 1994 to add developmentally disabled persons to the credit.

1.04 Youth and Rehabilitation Credit *Idaho Code 63-3029C*

Description: This is a credit provided to taxpayers who make charitable contributions to the Anchor House, the North Idaho Children's Home, the Idaho Youth Ranch, or to a non-profit rehabilitation facility that is located in Idaho and accredited by the Commission on Accreditation of Rehabilitation Facilities. The credit is calculated as 50% of the contribution. For individual taxpayers the credit is limited to the lesser of \$100 or 20% of the taxpayer's income tax liability. For corporations the credit is limited to the lesser of \$500 or 10% of the taxpayer's income tax liability. There is no carry over provision.

History: The credit was enacted in 1982. The Anchor House was added in 1986.

1.05 Schools, Libraries, and Museums Credit *Idaho Code 63-3029A*

Description: A credit is allowed for charitable contributions to Idaho public and private nonprofit schools (elementary, secondary, and higher education), their foundations, trusts, or associations; to Idaho Public Libraries and Library Districts, or their foundations; to Idaho Education Public Broadcast foundations; to the Idaho State Historical Society or its foundation; or to non-profit public or private museums located within Idaho. The credit is 50% of the contribution. In the case of individuals it is limited to 20% of the taxpayer's income tax liability or \$50, whichever is less. In the case of corporations, the credit is limited to 10% of the tax liability or \$500, whichever is less.

History: Originally enacted in 1976, the school credit applied only to private nonprofit secondary or higher education institutions. Elementary schools were added in 1977. Public institutions of higher education were added in 1978. All public schools and public libraries were added in 1984. The Idaho Public Broadcast System was added in 1986. Foundations of the qualifying institutions were added in 1987. The Idaho Historical Society was added in 1992. Non-profit museums were added in 1994.

1.06 Grocery Credit *Idaho Code 63-3024A*

Description: This credit is available to every Idaho resident (or part-year resident) who appears as a personal exemption on an Idaho income tax return. It is not available to Idaho residents who do not have sufficient income to meet Idaho's income tax filing requirement unless they are over 62 years of age, are blind, or are a disabled American veteran. The credit amount is \$15 for individuals under 65 years of age, \$30 for individuals 65 years of age or older. Part-year residents are entitled to a proportionate credit reflecting the portion of the year they were domiciled in Idaho. There are no carry over provisions associated with the grocery credit.

History: The grocery credit was originally enacted in 1965. It was amended in 1972 to make the credit refundable for residents over 65 years of age. It was amended in 1975 to make it refundable for resident taxpayers of all ages who meet the filing requirements. It is not refundable to non-residents. The grocery credit was amended in 1978 to raise the credit for individuals 65 years of age and older from \$20 to \$30. It was amended in 1983 to add statute of limitation to the credit. It was amended in 1996 to restrict the credit to residents.

1.07 Recycling Equipment Credit *Idaho Code 63-3029D*

Description: This credit is for 20% of the cost of equipment used in manufacturing products that consist of at least 90% post-consumer waste. The credit is limited to no more than \$30,000 in a single tax year, and unused portions may be carried forward up to seven years. It is non-refundable.

History: This credit was enacted in 1994.

1.08 Technological Equipment Deduction *Idaho Code 63-3022J*

Description: A deduction from taxable income is allowed to individuals and corporations for the fair-market value of computers and scientific equipment (and computer software) that are donated to Idaho public schools, public libraries, or public and private colleges and universities. The equipment may not be over five years old at the time of donation, and the donee must issue a written statement accepting the donation. The deduction cannot reduce taxable income to less than zero.

History: This deduction was enacted for schools in 1984 as 63-3025B. Libraries were added in 1985. Colleges and universities were added in 1995. The section was moved to 63-3022J in 1995.

1.09 Alcohol/Gasohol Production Deduction *Idaho Code 63-3022(m)*

Description: This deduction from Idaho taxable income is for the amount of tax credit claimed for alcohol (ethanol) fuel production under the federal income tax. For federal income tax purposes, gross income includes an amount equal to the federal alcohol fuel credit.

History: Enacted in 1981.

1.10 Alternative Energy Devices Deduction *Idaho Code 63-3022C*

Description: The Alternative Energy Device Deduction allows a deduction for the cost of acquiring, constructing, and/or installing wood, pellet, solar, wind, geothermal energy, or natural gas/propane devices in the taxpayer's residence. The deduction is limited to 40% of the cost in the first year and 20% of the cost in the next three years. No single year's deduction may exceed \$5,000. A taxpayer who buys a residence may claim any unused deduction associated with that residence subject to the restrictions noted above.

History: Enacted in 1976. Amended in 1994 to add natural gas and propane heating units, and to require that replaced wood burning stoves be surrendered to the Idaho Division of Environmental Quality.

1.11 Insulation Deduction *Idaho Code 63-3022B*

Description: This deduction is for the cost of insulation installed in buildings that "existed" as of January 1, 1976 and served as a residence of the taxpayer. A building "existed" if it was already built, under construction, or subject to an outstanding building permit. The insulation cannot be replacement for existing insulation.

History: Enacted in 1976.

1.12 Workers' Compensation Premium Deduction *Idaho Code 63-3022(p)*

Description: This deduction is allowed to self-employed individuals for the cost of workers' compensation insurance that has not already been deducted in arriving at taxable income.

History: Enacted in 1990.

1.13 Child Care Deduction *Idaho Code 63-3022D*

Description: The Child Care Deduction allows individual taxpayers to deduct childcare expenses which qualify for purposes of computing the federal child care credit. The maximum deduction allowed is \$2,400 for one qualifying child and \$4,800 for two or more qualifying children.

History: This deduction was enacted in 1977 in response to the federal switch from a deduction to a credit.

1.14 Personal Care Services Deduction *Idaho Code 63-3022(l)*

Description: A deduction is allowed for non-reimbursed personal care services (as defined in Chapter 56, Title 39, *Idaho Code*) that are provided for or to an immediate member of the taxpayer's family. The services must be provided in either the taxpayer's home or the cared-for person's home. The deduction is limited to a maximum of \$1,000.

History: Enacted in 1981.

1.15 Medical Assistance Account Deduction *Idaho Code 63-3022(l)*

Description: A deduction is allowed for contributions that are made to the State of Idaho's Medical Assistance Account so long as those contributions were not previously subtracted in arriving at taxable income.

History: Enacted in 1981.

1.16 Elderly and Development Disability Deduction *Idaho Code 63-3022E*

Description: This is a deduction from taxable income of \$1,000 for each eligible member of a household that is maintained by the taxpayer. The eligible members must be either 65 years of age or older, or developmentally disabled. The maximum amount of the deduction that the taxpayer can claim in any one tax year is \$3,000.

History: This deduction was enacted in 1981. Amended in 1984 to add developmentally disabled persons to the qualifying dependents. Amended in 1994 to allow the deduction on the developmentally disabled person's own return.

1.17 Adoption Expense Deduction *Idaho Code 63-3022I*

Description: This deduction is for up to \$3,000 of actual legal fees and medical costs incurred in an adoption.

History: This deduction was enacted in 1994.

1.18 Medical Savings Account Deduction *Idaho Code 63-3022(r)-(t); 41-53xx*

Description: This is a deduction for contributions to medical savings accounts. It is limited to a maximum of \$2,000 per taxpayer (per spouse on joint returns). Other restrictions apply.

History: This deduction was originally enacted in 1994. Amended in 1995 to eliminate a restriction to high-deductible insurance policies, eliminated administrative responsibilities from the depository institution, and allowed taxpayer funded accounts to qualify.

1.19 Conservation and Weatherization *Idaho Code 63-3022F*

Description: This exempts from income the value of benefits obtained from conservation or weatherization programs offered by public utilities.

History: Enacted in 1984.

1.20 Riparian Land Improvements *Idaho Code 63-3024B*

Description: This is a 50% credit for expenditures related to improving the habitat for threatened/endangered species or riparian habitat. The credit is limited to no more than \$2,000 per person per year, and no more than \$250,000 for all such credits allowed in a single tax year.

History: Enacted in 1997, effective January 1, 1998, sunsets December 31, 2002.

1.21 Capital Gains Exclusion *Idaho Code 63-3022H*

Description: This exclusion is allowed for 60% of the gain from the sale of certain property. To qualify for this exclusion the property must have had an Idaho situs at the time of sale, and is limited to real property held for at least five years; tangible personal property that was used in manufacturing, mining, agriculture, wholesaling, or research and development and held for twelve months or longer; cattle or horses held for twenty-four months or longer; other breeding livestock held twelve months or longer; or timber held for over twenty-four months or longer.

History: Enacted in 1987. Amended in 1995 to add various restrictions, including a requirement that qualifying timber must be grown in Idaho, and livestock gain claimants must derive at least half of their gross income from farming or ranching operations in Idaho.

1.22 Government Interest Exclusion *Idaho Code 63-3022(a)*;

Description: This exclusion is for the amount of interest earned on securities issued by the State of Idaho and/or local governments, and interest earned on securities issued by the federal government. The interest exclusion must be reduced by an amount that is calculated by multiplying the taxpayer's total deductible interest expense, times the ratio of the value of assets subject to the government interest exclusion, to the value of the taxpayer's assets in total.

History: This exclusion has been in effect since enactment of the income tax.

1.23 Social Security Exclusion *Idaho Code 63-3022(o)*

Description: This exclusion is for the amount of social security income that is included in arriving at federal adjusted gross income. No social security income is subject to Idaho's income tax.

History: This exclusion was enacted in 1984 in response to federal taxation of a portion of social security income.

1.24 Railroad Retirement Exclusion *Idaho Code 63-3022(o)*

Description: This exclusion is for the amount of railroad retirement benefits paid by the Railroad Retirement Board that are included in federal adjusted gross income. Railroad retirement is the equivalent of social security for railroad employees.

History: Enacted in 1984.

1.25 Retirement Benefit Exclusion *Idaho Code 63-3022A*

Description: This exclusion is for retirement benefits paid by any of the following: a) U.S. civil service; b) fireman's retirement fund of Idaho; c) policeman's retirement fund of a city within Idaho; and d) U.S. Military. The exclusion is available to either retirees or unremarried widows of retirees who are 65 years of age or older, or are disabled and 62 years of age or older. The exclusion is limited to the actual retirement payment or the maximum amount of social security benefits available, whichever is less.

History: This exclusion was enacted in 1973. It is revised annually by the Tax Commission to adjust the maximum exclusion amount.

1.26 Idaho Lottery Winnings Exclusion *Idaho Code 67-7439*

Description: Excludes Idaho Lottery prizes of less than \$600 from taxable income.

History: Originally enacted in 1988 as a 100% exclusion. Amended in 1997 to limit the income exclusion to prizes of less than \$600 (effective 1/1/98).

1.27 Indian Earnings on Reservation Exclusion *Idaho Income Tax Regulation 30*

Description: Income earned on an Indian reservation by an Indian who lives on the reservation is not taxable by the state. To qualify for the exclusion, the Indian must be an enrolled member of a federally recognized Indian tribe.

History: This exclusion is the result of various treaties and case law.

1.28 World War II Reparations Exclusion *Idaho Code 63-3022G*

Description: Amounts paid to individuals from the United States Civil Liberties Public Education fund.

History: Enacted in 1989.

SALES AND USE TAX DETAIL

The following sales tax expenditures can be divided into four broad categories: 2.01 through 2.21 cover sales tax expenditures that are related to the specific uses of goods and services; 2.22 through 2.34 cover sales tax expenditures that are related to specific goods; 2.35 through 2.48 cover sales tax expenditures that are related to specific services; and 2.49 through 2.71 cover sales tax expenditures that are related to specific entities that receive exemptions on either all or part of the purchases or sales they make.

The listing for exempt services requires a special note. While a variety of classification systems are possible, the classification used here follows the structure of the Standard Industrial Classification (SIC) Manual, Executive Office of the President, Office of Management and Budget. This classification system was chosen because it is the basis for reporting a considerable variety of economic data, including that used for estimating the revenue impact associated with the various services delineated.

The SIC coding system is based on the primary activity of the establishment being coded. For example, one of the activities included under the major group heading Personal Services is BarberShops and Beauty Salons. The primary function of these establishments is the performance of haircuts and hair styling, both personal services that are presently exempt from sales tax. However, such establishments will also typically engage in retailing hair care products, transactions that are taxable. Thus, the receipts of a service establishment (such as a barbershop) can contain both exempt and taxable components. This is taken into consideration in the estimates of fiscal impact contained herein.

Another feature of the services classification used in this document relates to the classification of types of services vs. classification of industrial categories. SIC categories include major groupings for Automotive Repair and Miscellaneous Repair Services. Miscellaneous Repair Services includes repairs to televisions, stereos, appliances, tools, watches, jewelry, furniture, and most other tangible property. These two major groups cover the bulk of all "repair services." However, garment repair and shoe repair are included in the major group Personal Services. Also, computer repair is contained in the major group Business Services.

For these reasons, care must be taken in moving from this classification of services (based on SIC definitions) and any other classification of services (based on broader conceptual notions, such as repairs to tangible personal property).

2.01 Production Exemption - Equipment *Idaho Code 63-3622D; 63-3622JJ*

Description: This feature of the production exemption exempts equipment used to produce a taxable product. Production activities covered by this exemption are limited to manufacturing, processing, fabricating, logging, farming, and mining. The equipment must be primarily and directly used in the production activity to qualify. Also, the claiming entity must be primarily engaged in a qualifying activity for its equipment to qualify. The only exception to this is logging, where any logging equipment qualifies.

Certain specific exclusions from the production exemption exist. They include: hand tools with a unit purchase price of \$100 or less; equipment that is used in activities other than the actual production activity; equipment used in research and development; equipment used in transportation, including motor vehicles and aircraft

that are required to be licensed by any state; equipment used to make repairs; any tangible personal property that is or is intended to become a component of real property; recreational vehicles; equipment used to produce exempted gas, electricity, water, heating materials, literature, or liquor.

History: This exemption was originally enacted in 1965 as 63-3622D. In 1987, custom farmers were added to the exemption by amending 63-3603, definition of farming. In 1989, 63-3605A was added to include contract loggers in the production exemption. In 1990, logging was moved to a separate section and expanded to include persons who are not primarily engaged in logging. It was amended in 1991 in response to the Haener decision (Idaho Supreme Court) by adopting the integrated plant doctrine, exempting equipment used to fabricate or install production equipment, and adding safety equipment.

2.02 Production Exemption - Supplies *Idaho Code 63-3622D, 63-3622JJ*

Description: This feature of the production exemption exempts supplies used in the process of producing a product for resale. Production activities covered by this exemption are limited to manufacturing, processing, fabricating, farming, logging, and mining. The supplies must be primarily and directly used in the production activity to qualify. Also, the claiming entity must be primarily engaged in a qualifying activity for its production supplies to qualify. The only exception to this is logging, where any logging supplies qualify.

Certain specific inclusions to the production exemption for supplies exist. They include: repair parts, lubricants, hydraulic oil, coolants, chemicals, catalysts, safety supplies (except for logging), and, in the dairy industry, disinfectants used to clean cow udders or to clean pipes, vats, or other milking equipment. Fuel used in logging trucks is also exempt.

Certain specific exclusions from the production exemption for supplies exist. They include: supplies that are used in activities other than the actual manufacturing, mining, farming, or logging process; supplies used in research or development; supplies used in transportation activities; repair supplies, other than parts for production equipment; any tangible personal property that is or is intended to become a component of real property; supplies used to produce exempted gas, electricity, water, heating materials, literature, or liquor.

History: This exemption was originally enacted in 1965 as 63-3622(d); custom farmers were added to the production exemption in 1987 by amending 63-3603, definition of farming; contract loggers were added in 1989 by adding 63-3605A. In 1990, logging was moved to a separate section and expanded to allow the exemption to apply to persons who are not primarily engaged in logging. Amended in 1991 in response to the Haener decision (Idaho Supreme Court) by adopting the integrated plant doctrine, exempting supplies used to fabricate or install production equipment, and adding safety supplies (except for logging). Amended in 1996 to add all fuel used in logging trucks.

2.03 Irrigation Equipment and Supplies *Idaho Code 63-3622W*

Description: Exempts agricultural irrigation equipment and supplies, even if attached to real property, and even if purchased by a contractor for an agricultural irrigation project.

History: Originally enacted in 1975 as 63-3622(f).

2.04 Pollution Control Equipment *Idaho Code 63-3622X*

Description: Exempts equipment required by regulatory agencies for air or water pollution control.

History: Originally enacted in 1977 as 63-3622(e). Amended in 1997 to add certain dry-cleaning equipment.

2.05 Broadcast Equipment and Supplies *Idaho Code 63-3622S*

Description: Provides an exemption for equipment and supplies used to produce and broadcast radio and television programs.

History: It was originally enacted in 1975 as 63-3622(w) and was amended in 1987 to add aircraft to the exclusions from the exemption.

2.06 Publishing Equipment and Supplies *Idaho Code 63-3622T*

Description: Provides an exemption for equipment and supplies used to publish advertising type newspapers that are sold or given away to the public, as long as the paper contains at least 10% editorial comment and advertising revenue is the publisher's primary source of income.

History: This exemption was originally enacted in 1979 as 63-3622(x). The only amendment in 1987 to this exemption was to add aircraft to exclusions from the exemption.

2.07 Commercial Aircraft *Idaho Code 63-3622GG*

Description: Exempts aircraft purchased for commercial transport of passengers or freight.

History: Enacted in 1988. Amended in 1994 to add any aircraft that are for use outside Idaho.

2.08 Railroad Rolling Stock and Remanufacturing *Idaho Code 63-3622CC; 63-3622DD*

Description: Provides an exemption for railroad rolling stock and for parts, equipment, and supplies used in the process of remanufacturing railroad rolling stock, whether or not the rolling stock is for resale. Rolling stock must have been used in interstate commerce at least three months prior to rebuild to qualify.

History: Enacted in 1986.

2.09 Interstate Trucks *Idaho Code 63-3622R*

Description: Exempts trucks weighing over 26,000 pounds that are registered under the international registration plan (or similar prorata system) and trailers that are used in a fleet operating in interstate commerce. Provides a recapture of sales tax on vehicles that are part of a fleet that are not used at least 10% outside Idaho during the calendar year.

History: Enacted in 1989.

2.10 Out-of-State Contracts *Idaho Code 63-3622B*

Description: Exempts goods purchased by contractors to install into real property in nontaxing states.

History: Originally enacted in 1965 as 63-3622(b), it was amended in 1993 to extend to non-Idaho contractors.

2.11 Trade-in Value *Idaho Code 63-3613(b)2*

Description: Excludes from the taxable sales price any amounts allowed for merchandise traded in on other like goods.

History: Enacted in 1965. Amended in 1990 to include trade-downs and barbers.

2.12 Sale or Lease of Businesses or Business Assets *Idaho Code 63-3622K(b)(2-5)*

Description: Exempts sales of otherwise taxable merchandise, equipment, and supplies in cases where the entire business operation is undergoing transfer of ownership and the business itself will continue its operations. It also exempts sales of businesses that amount to change in the form of business ownership. It also exempts sales and leases of capital assets between closely related businesses, but only if the sales tax has previously been paid on the capital asset.

History: Originally enacted as 63-3622(l), it was amended in 1967 to add bulk sales and change in form of doing business by adopting a new definition section 63-3612A in 1967. Section 63-3612A was repealed and moved to 63-3622K in 1988, then amended in 1990 to add related business transfers and sales. Amended in 1996 to add leases of assets among family-owned businesses.

2.13 Food Stamps/WIC *Idaho Code 63-3622EE; 63-3622FF*

Description: Exempts goods purchased with WIC checks and federal food stamps.

History: Mandated in 1987 by the federal government.

2.14 Motor Vehicles Used Outside of Idaho *Idaho Code 63-3622R*

Description: Exempts vehicles under 26,000 pounds bought in Idaho for use outside Idaho. It also applies to trailers. (See 2.09 Interstate Trucks for vehicles over 26,000 pounds and trailers used in interstate commerce.)

History: Originally enacted as 63-3622(q) in 1965, it exempted vehicles sold in Idaho for use out-of-state. It was amended in 1989 to add weight limit.

2.15 Common Carrier Purchases and Out-of-State Sales *Idaho Code 63-3622Q, 63-3622P*

Description: Exempts goods delivered to buyers outside Idaho (63-3622Q) and in-state purchases by common carriers for use outside Idaho if transported out of Idaho under a bill of lading (63-3622P).

History: Originally enacted as 63-3622(p) and 63-3622(o) in 1965.

2.16 Donations of Real Property to Idaho Government *Idaho Code 63-3621(l)*

Description: Allows an exemption from use tax for goods that are donated to either the State of Idaho or to a nonprofit listed in 63-3622O, where the goods are incorporated into real property.

History: Enacted in 1991.

2.17 Incidental Sales of Tangible Personal Property *Idaho Code 63-3609*

Description: Exempts goods sold incidentally when selling real property, such as a stove and refrigerator included with a home.

History: Enacted in 1985.

2.18 Lodging, Eating, and Drinking Places *Idaho Code 63-3612*

Description: Allows these industries an exemption for nondepreciable goods that are consumed by customers, such as guest hand soap provided in a motel room.

History: Enacted in 1988.

2.19 School Lunches and Senior Citizen Meals *Idaho Code 63-3622J*

Description: Exempts federal meals programs for youth and elderly.

History: School Lunch programs were exempted in 1965 as 63-3622(k). Amended in 1974 to add sale of meals to aging persons under the Older Americans Act Program.

2.20 Drivers Education Automobiles *Idaho Code 63-3622R(d)*

Description: Exempts the value of motor vehicles that are temporarily donated to drivers education programs.

History: Enacted in 1995.

2.21 Ski Lifts and Snowgrooming Equipment *Idaho Code 63-3622Y*

Description: Exempts the lifts, snowgroomers, and snowmaking equipment used by the owner of a ski area.

History: Enacted in 1995.

2.22 Motor Fuels *Idaho Code 63-3622C*

Description: Exempts motor fuels subject to motor fuels tax; exempts off-road fuels loaded in Idaho and used outside Idaho.

History: Originally enacted in 1965 as 63-3622(c). Exempted on road use of motor fuels; amended in 1986 to exempt locomotive fuels unless loaded and burned off in Idaho.

2.23 Heating Materials *Idaho Code 63-3622G*

Description: Exempts wood, coal, gas, and petroleum products used as a source of heat for either industrial or domestic purposes.

History: Originally enacted in 1965 as 63-3622(g).

2.24 Utility Sales *Idaho Code 63-3622F*

Description: Exempts sales of natural gas, electricity, and water delivered to consumers by means of wires, pipes, mains, or similar systems.

History: Originally enacted in 1965 as 63-3622(f).

2.25 Used Mobile Homes *Idaho Code 63-3622R*

Description: Exempts the sale of used manufactured homes from the sales tax.

History: Original 63-3622(q) amended in 1976 to exempt used manufactured homes.

2.26 Vending Machines and Amusement Devices *Idaho Code 63-3622H*

Description: Exempts coin-operated machines that vend a taxable product or service.

History: Enacted in 1990.

2.27 Prescriptions and Durable Medical Equipment *Idaho Code 63-3622N*

Description: Exempts most prescription medical items.

History: This exemption was originally enacted as 63-3622(q) in 1967 to exempt prescription drugs. It was amended in 1971 to add prescription oxygen and amended in 1976 to add prosthetics, limbs, wheelchairs, hearing aides, and crutches. It was amended in 1990 to add durable medical equipment, and numerous other prescription items. Amended in 1992 to clarify that dentures and other orthodontic appliances are taxable when purchased by the practitioner.

2.28 Funeral Caskets *Idaho Code 63-3622U*

Description: Exempts goods sold in conjunction with a funeral.

History: Originally enacted in 1977 as 63-3622(y).

2.29 Containers *Idaho Code 63-3622E*

Description: Exempts containers that are part of goods for sale, including returnable containers.

History: Originally enacted in 1965 as 63-3622(e).

2.30 Nonprofit Literature *Idaho Code 63-3622I*

Description: Exempts literature published and sold by 501(c)(3) nonprofit organizations.

History: Originally enacted in 1965 as 63-3622(j), exempting only religious literature. Amended in 1989 to include literature of all 501(c)(3) nonprofit organizations in response to the U.S. Supreme Court ruling in *Texas Monthly vs. Bullock*.

2.31 Official Documents *Idaho Code 63-3622AA*

Description: Exempts sales of documents when the fee for the document is set by *Idaho Code*

History: Originally enacted in 1984.

2.32 Precious Metal Bullion *Idaho Code 63-3622V*

Description: Exempts sales of precious metal bullion and coins.

History: Originally enacted in 1982 as 63-3622(z).

2.33 New Manufactured Homes or Modular Buildings *Idaho Code 63-3613(c)*

Description: Excludes 45% of the sales price of new manufactured homes and modular buildings from the taxable sales price.

History: Originally exempted 60% of the sales price of mobile homes when enacted in 1965. It was amended in 1976 to exempt 45% and add modular buildings (which were previously treated as real property improvements and taxed on materials as built).

2.34 Telecommunications Equipment *Idaho Code 63-3613(b), 63-3621(a)*

Description: Exempts from taxation the amount of discount or price reduction that is offered as an inducement to commence or continue telecommunications service.

History: Enacted in 1996.

2.35 Construction *Idaho Code 63-3609*

Description: Sales tax is paid on the cost of materials that are used in construction projects, but the labor component is generally not taxed. Mobile and manufactured homes are taxed on 55% of the sales price [*Idaho Code 63-3613(c)*] in order to give them equivalent treatment. SIC major groups 15, 16, and 17 are included in this category.

History: The original language of the sales tax defined a "sale" as any transaction involving the exchange of tangible personal property for a consideration (*Idaho Code 63-3612*). In the section of the Sales Tax Act defining a retail sale it is stated that "all persons engaged in constructing, altering, repairing or improving real estate are consumers of the material used by them; all sales to or use by such persons of tangible personal property are taxable whether or not such persons intend resale of the improved property (*Idaho Code 63-3609*)."

2.36 Agricultural and Industrial Services

Description: This category of services includes agricultural soil preparation, planting, cultivating, and harvesting; veterinary services; pet boarding and grooming; farm management; lawn and garden services; forestry service; and mining services. SIC major groups 01 through 14 are included in this category.

History: Originally excluded from definition of sales tax base.

2.37 Transportation Services *Idaho Code 63-3613(b)7*

Description: Most charges for transportation of freight and passengers are exempt from the sales tax (*Idaho Code 63-3613(b)7*). Exceptions (i.e., taxable transportation charges) include transportation of manufactured homes by the dealer (*Idaho Code 63-3613(b)7*), the cost of transportation prior to the sale (*Idaho Code 63-3613(a)3*), and

receipts from intrastate transportation of passengers or freight by air charter [*Idaho Code* 63-3612(j)]. SIC major groups 40 through 47 are included in this category.

History: Transportation services have generally been exempt since the enactment of sales tax in 1965. The exclusion for transportation of manufactured homes was added in 1986. Air charter transportation of freight and passengers was made taxable in 1988.

2.38 Communications

Description: Subscriptions or charges for one-way and two-way transmissions of signals containing information (sound, images, data, etc.) are not taxed. This exemption consists mostly of local and long-distance telephone service and cable television. SIC major group 48 is included in this category.

History: Communications have been exempt since the enactment of the sales tax in 1965.

2.39 Repairs *Idaho Code* 63-3613(b)4

Description: The labor charges associated with repairing or installing tangible personal property are generally not taxable as long as they are separately stated on the bill. SIC major groups 75 and 76 are included in this category.

History: Exempt since enactment of the sales tax in 1965.

2.40 Professional Services

Description: Legal, accounting, engineering, architectural, R&D, public relations, and management services fall within this category. SIC major groups 81 and 87 are included in this category.

History: Exempt since enactment of the sales tax in 1965.

2.41 Business Services

Description: Advertising, credit agencies, building maintenance, personnel agencies, computer programming and processing, computer repair, and security agencies are some of the major elements of this category. SIC major group 73 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.42 Personal Services

Description: Laundry and dry cleaning, barbers and beauticians, shoe repair, funeral services, tax return preparation, massage parlors, and escort services are among the elements of the personal services major group. SIC major group 72 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.43 Health and Medical Services

Description: Doctors, dentists, hospitals, and nursing home services are the principal elements of this category. SIC major group 80 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.44 Social Services

Description: Adult and child day care, counseling, job training, residential care, and adoption services are some of the principal elements of this category. SIC major group 83 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.45 Educational Services

Description: Elementary and secondary schools, colleges and universities, libraries, vocational schools, driving instruction, flight schools, and modeling schools are among the establishments covered by this category. SIC major group 82 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.46 Lottery Tickets and Pari-Mutuel Betting *Idaho Code 67-7439*

Description: Exempts the sale and purchase of lottery tickets and pari-mutuel betting from the sales tax. Also exempts from sales tax any equipment used in lottery operations.

History: Enacted in 1988.

2.47 Media Measurement Services *Idaho Code 63-3622LL*

Description: Exempts the sale and purchase of any television, radio, newspaper, or other media measurement service.

History: Enacted in 1997.

2.48 Miscellaneous Services

Description: This includes all service industries not classified elsewhere. Includes freelance authors, lecturers, radio commentators, songwriters, weather forecasters, artists, consulting scientists, inventors, actuaries, and newspaper columnist. SIC major group 89 is in this category. This category also includes SIC industry group 495, sanitary services. Sewer and trash services are included in this industry group.

History: Exempt since enactment of the sales tax in 1965.

2.49 Educational Institution Purchases *Idaho Code 63-3622O(1)(a)*

Description: Exempts all purchases by nonprofit colleges, universities, primary and secondary schools. Excludes from exemption schools that primarily teach business, dancing, gymnastics, dramatics, music, cosmetology, writing, exercise, and "other special accomplishments."

History: This was originally enacted as 63-3622(s) in 1967 and amended in 1990 to add non-resident schools with Idaho facilities. It was amended in 1993 to add all non-resident schools not otherwise excluded.

2.50 Hospital Purchases *Idaho Code 63-3622O(1)(a)*

Description: Exempts all purchases by nonprofit hospitals that are licensed by the state for the care of ill persons. Excludes from exemption nursing homes or "similar institutions."

History: Originally enacted as 63-3622(s) in 1967.

2.51 Health Entity Purchases *Idaho Code 63-3622O(1)(a)*

Description: Exempts all purchases by certain specified "health related entities." The list consists of: the Idaho Cystic Fibrosis Foundation, Idaho Epilepsy League, Idaho Lung Association, March of Dimes, American Cancer Society, Mental Health Association, Idaho Association of Retarded Citizens, American Heart Association of Idaho, United Cerebral Palsy, Arthritis Foundation, Muscular Dystrophy Foundation, National Multiple Sclerosis Society, Rocky Mountain Kidney Association, American Diabetes Association, Easter Seals, and Idaho Special Olympics. It also includes the local or regional chapters or divisions of these entities.

History: Amended in 1980 to add first list of health related entities. Amended in 1986 and 1990 to expand the list.

2.52 Canal Company Purchases *Idaho Code 63-3622O(1)(a)*

Description: Exempts all purchases by canal companies. Canal companies are defined as nonprofit corporations whose sole purpose is operating and maintaining dams, reservoirs, canals, lateral and drainage ditches, pumps, and pumping plants.

History: Originally enacted in 1967 as 63-3622(s).

2.53 Forest Protective Association Purchases *Idaho Code 63-3622O(1)(a)*

Description: Exempts all purchases by forest protective associations. Forest protective associations are associations that detect, prevent, and suppress forest or range fires. They include only those associations that contract with the State of Idaho pursuant to Chapter 1, Title 38, *Idaho Code*

History: Enacted in 1979.

2.54 Food Bank Purchases *Idaho Code 63-3622O(1)(b, c)*

Description: Exempts all purchases by food banks or soup kitchens. Includes the Idaho Food Bank Warehouse, Inc. by specific reference, and also includes any other nonprofit corporation or association "one of whose" primary purposes is the furnishing of food or food products to others without charge.

History: Enacted in 1991.

2.55 Nonsale Clothier Purchases *Idaho Code 63-3622O(1)(d)*

Description: Exempts donations or sales of clothes to nonsale clothiers. Nonsale clothiers are defined as any nonprofit corporation or association "one of whose" primary purposes is the furnishing of clothes to others without charge.

History: Enacted in 1992.

2.56 Centers for Independent Living *Idaho Code 63-3622O(1)(e)*

Description: Exempts sales to or purchases by centers for independent living. Centers for independent living are defined as private, non-profit, non-residential organizations where at least 51% of the governing board are individuals with disabilities.

History: Enacted in 1997.

2.57 State of Idaho and Local Government Purchases *Idaho Code 63-3622O(1)(f)*

Description: Exempts Idaho governmental agencies from paying sales tax on purchases.

History: Enacted in 1997; exemption was done by Tax Commission regulation from enactment of the sales tax to 1997.

2.58 Ronald McDonald House Rooms *Idaho Code 63-3622O(5)*

Description: This exempts the renting of a place to sleep by the Ronald McDonald House.

History: Enacted in 1997.

2.59 INEEL R&D Purchases *Idaho Code 63-3622BB*

Description: Exempts goods used for research and development at the Idaho National Engineering and Environmental Laboratory (INEEL).

History: It was originally enacted in 1967 and exempted all federal research and development and nuclear fuel reprocessing under 63-3615. It was amended in 1969 to limit to INEEL only. It was recodified in 1985 as 63-3622BB and removed nuclear fuel reprocessing from the exemption.

2.60 Motor Vehicle Purchases by Family Members *Idaho Code 63-3622K(c)*

Description: Exempts sales of motor vehicles between family members related within the second degree of consanguinity.

History: Section 63-3612A was amended in 1980 to add the sale of motor vehicles to family members. It was repealed and moved to 63-3622K in 1988.

2.61 Sales by 4-H and FFA Clubs at Fairs *Idaho Code 63-3622K(b)7*

Description: Exempts sales of animals by any 4-H club or FFA club held in conjunction with a fair or the Western Idaho Spring Lamb Sale.

History: Enacted in 1979 by amending 63-3612A. Moved to 63-3622K in 1988.

2.62 Sales by Non-Retailers (Yard and Occasional Sales) *Idaho Code 63-3622K(b)(1,6); 63-3622H*

Description: Exempts sales of items by individuals who are not retailers and who are not behaving as a retailer. Covers transactions such as occasional yard sales, occasional classified ad sales, etc. Motor vehicle sales are specifically excluded from this exemption.

History: Originally enacted as 63-3622(j, l) in 1965.

2.63 Sales by Indian Tribes on Reservations *Idaho Code 63-3622Z*

Description: Exempts sales by Indian Tribal Enterprises from sales and use tax. This exemption allows a tribal enterprise to make sales to both Indians and non-Indians without collecting sales tax. Further, it provides that no use tax applies to the purchase even if the non-Indian removes the goods from the reservation.

History: Originally enacted as 63-3622(aa) in 1984; exempted sales of tangible personal property by tribes within reservation boundaries; amended in 1987 to include sales of services and to define reservation.

2.64 Sales of Meals by Churches to Members *Idaho Code 63-3622J*

Description: Exempts meals sold at church functions to members of the congregation.

History: Originally enacted as 63-3622(k) in 1965.

2.65 Sales by Outfitters and Guides *Idaho Code 63-3613(b)9*

Description: Allows outfitters to exclude from the taxable amount charged to their customers the federal fees imposed on outfitters for the right to use recreational sites.

History: Enacted in 1990. Amended in 1994 to eliminate the provision that the federal fees must be for the purpose of managing the land or water upon which the outfitting occurs.

2.66 Sales Through Vending Machines *Idaho Code 63-3613(e)*

Description: Allows retailers selling products through vending machines for \$1.00 or less to pay tax on 117% of their acquisition cost of the products rather than on the retail sales price.

History: Enacted in 1977.

2.67 Auto Manufacturer Rebates *Idaho Code 63-3613(b)8*

Description: Allows dealers to deduct the amount of a rebate given to the buyer, by the motor vehicle manufacturer, from the taxable sales price of the vehicle.

History: Enacted in 1990.

2.68 Incidental Sales of Churches *Idaho Code 63-3622KK*

Description: Exempts sales by churches that do not regularly compete with private enterprise.

History: Enacted in 1990.

2.69 Federal Excise Tax Imposed at Retail Level *Idaho Code 63-3613(b)5*

Description: Excludes retail level federal excise taxes from the taxable sales price.

History: Originally enacted in 1965.

2.70 Federal Constitutional Prohibitions *Idaho Code 63-3622A*

Description: State cannot tax goods when prohibited by the U.S. Constitution.

History: Originally enacted in 1965 as 63-3622(a).

2.71 Other Federal and State Statutory Prohibitions

Description: Exemptions granted from state sales tax by other state statutes and by federal statutes, such as the American Red Cross, Amtrak, Credit Unions, Emergency 911, Federal Intermediate Credit Banks, Federal Land Banks, Foreign Diplomats, Idaho Health Facility Authority, Idaho Housing Authority, Idaho Life and Health Insurance Guaranty Association, Idaho Onion Commission, Idaho Potato Commission, Idaho Turnpike Authority, Idaho Wheat Commission, Jr. College Dormitory Housing Authority, Production Credit Association, and Regional Airport Authority.

History: Varies by statute.

CROSS REFERENCE TABLE

In General Fund Revenue Book Order

	Title	Idaho Code
1.01	Investment Tax Credit	63-3029B
1.02	Other States Tax Credit	63-3029
1.03	Elderly Dependent Credit	63-3025D
1.04	Youth & Rehabilitation Credit	63-3029C
1.05	Schools, Libraries, and Museums Credit	63-3029A
1.06	Grocery Credit	63-3024A
1.07	Recycling Equipment Credit	63-3029D
1.08	Technological Equipment Deduction	63-3022J
1.09	Alcohol/Gasohol Production Deduction	63-3022(m)
1.10	Alternative Energy Devices Deduction	63-3022C
1.11	Insulation Deduction	63-3022B
1.12	Workers' Comp. Premium Deduction	63-3022(p)
1.13	Child Care Deduction	63-3022D
1.14	Personal Care Services Deduction	63-3022(l)
1.15	Medical Assistance Account Deduction	63-3022(l)
1.16	Elderly & Developmentally Disabled Deduction	63-3022E
1.17	Adoption Expense Deduction	63-3022I
1.18	Medical Savings Account Deduction	63-3022 41-53xx
1.19	Conservation and Weatherization Deduction	63-3022F
1.20	Riparian Land Improvements	63-3024B
1.21	Capital Gains Exclusion	63-3022H
1.22	Government Interest Exclusion	63-3022(a)
1.23	Social Security Exclusion	63-3022(o)
1.24	Railroad Retirement Exclusion	63-3022(o)
1.25	Retirement Benefit Exclusion	63-3022A
1.26	Idaho Lottery Winnings Exclusion	67-7439
1.27	Indian Earnings on Reservation Exclusion	Idaho Income Tax Regulation 30
1.28	World War II Reparations Exclusion	63-3022G
2.01	Production Exemption - Equipment	63-3622D 63-3622JJ
2.02	Production Exemption - Supplies	63-3622D 63-3622JJ
2.03	Irrigation Equipment & Supplies	63-3622W
2.04	Pollution Control Equipment	63-3622X
2.05	Broadcast Equipment & Supplies	63-3622S
2.06	Publishing Equipment and Supplies	63-3622T
2.07	Commercial Aircraft	63-3622GG
2.08	Railroad Rolling Stock & Remanufacturing	63-3622CC 63-3622DD
2.09	Interstate Trucks	63-3622R
2.10	Out-of-State Contracts	63-3622B
2.11	Trade-in Value	63-3613(b)2

	Title	Idaho Code
2.12	Sales of Businesses or Business Assets	63-3622K(b)(2-5)
2.13	Food Stamps/WIC	63-3622EE 63-3622FF
2.14	Motor Vehicles Used Outside of Idaho	63-3622R
2.15	Common Carrier Purchases & Out-of-State Sales	63-3622Q 63-3622P
2.16	Donation of Real Property to Idaho Government	63-3621(l)
2.17	Incidental Sales of Tangible Personal Property	63-3609
2.18	Lodging, Eating, & Drinking Places	63-3612
2.19	School Lunches & Senior Citizens Meals	63-3622J
2.20	Drivers Education Automobiles	63-3622R(d)
2.21	Ski Lifts and Snowgrooming Equipment	63-3622Y
2.22	Motor Fuels	63-3622C
2.23	Heating Materials	63-3622G
2.24	Utility Sales	63-3622F
2.25	Used Mobile Homes	63-3622R
2.26	Vending Machines & Amusement Devices	63-3622II
2.27	Prescriptions and Durable Medical Equipment	63-3622N
2.28	Funeral Caskets	63-3622U
2.29	Containers	63-3622E
2.30	Nonprofit Literature	63-3622I
2.31	Official Documents	63-3622AA
2.32	Precious Metal Bullion	63-3622V
2.33	New Manufactured Homes or Modular Buildings	63-3613(c)
2.34	Telecommunications Equipment	63-3613(b) 63-3621(a)
2.35	Construction	63-3609
2.36	Agricultural & Industrial Services	
2.37	Transportation Services	63-3613(b)7
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2.43	Health & Medical Services	
2.44	Social Services	
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2.46	Lottery Tickets and Pari-Mutuel Betting	67-7439
2.47	Media Measurement Services	63-3622LL
2.48	Miscellaneous Services	
2.49	Educational Institution Purchases	63-3622O(a)
2.50	Hospital Purchases	63-3622O(b)
2.51	Health Entity Purchases	63-3622O(c)
2.52	Canal Company Purchases	63-3622O(d)
25.3	Forest Protective Association Purchases	63-3622O(e)
2.54	Food Bank Purchases	63-3622O(f)
2.55	Nonsale Clothier Purchases	63-3622O(g, h)

	Title	Idaho Code
2.56	Centers for Independent Living	63-3622O(1)(e)
2.57	State of Idaho and Local Government Purchases	63-3622O(1)(f)
2.58	Ronald McDonald House Rooms	63-3622O(5)
2.59	INEEL R&D Purchases	63-3622BB
2.60	Motor Vehicle Purchases by Family Members	63-3622K(c)
2.61	Sales by 4-H & FFA Clubs at Fairs	63-3622K(b)7
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2.63	Sales by Indian Tribes on Reservations	63-3622Z
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2.68	Incidental Sales of Churches	63-3622KK
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2.70	Federal Constitutional Prohibitions	63-3622A
2.71	Other Federal & State Statutory Prohibitions	various

CROSS REFERENCE TABLE

In *Idaho Code* Order

Idaho Code		Title
Idaho Income Tax Regulation 30	1.27	Indian Earnings on Reservation Exclusion
41-53xx	1.18	Medical Savings Account Deduction
63-3022(a)	1.22	Government Interest Exclusion
63-3022(l)	1.14	Personal Care Services Deduction
	1.15	Medical Assistance Account Deduction
63-3022(m)	1.09	Alcohol/Gasohol Production Deduction
63-3022(o)	1.23	Social Security Exclusion
	1.24	Railroad Retirement Exclusion
63-3022(p)	1.12	Workers' Comp. Premium Deduction
63-3022(r)-(t)	1.18	Medical Savings Account Deduction
63-3022A	1.25	Retirement Benefit Exclusion
63-3022B	1.11	Insulation Deduction
63-3022C	1.10	Alternative Energy Device Deduction
63-3022D	1.13	Child Care Deduction
63-3022E	1.16	Elderly & Developmentally Disabled Deduction
63-3022F	1.19	Conservation and Weatherization
63-3022G	1.28	World War II Reparations Exclusion
63-3022H	1.21	Capital Gains Exclusion
63-3022I	1.17	Adoption Expense Deduction
63-3022J	1.08	Technological Equipment Deduction
63-3022J	1.08	Technological Equipment Deduction
63-3024A	1.06	Grocery Credit
63-3024B	1.20	Riparian Land Improvement
63-3025D	1.03	Elderly and Developmentally Disabled Dependent Credit
63-3029	1.02	Other States Tax Credit
63-3029A	1.05	Schools, Libraries, and Museums Credit
63-3029B	1.01	Investment Tax Credit
63-3029C	1.04	Youth & Rehabilitation Credit
63-3029D	1.07	Recycling Equipment Credit
63-3609	2.17	Incidental Sales of Tangible Personal Property
	2.35	Construction
63-3612	2.18	Lodging, Eating, & Drinking Places
63-3613(b)2	2.11	Trade-in Value
63-3613(b)4	2.39	Repairs
63-3613(b)5	2.69	Federal Excise Tax Imposed at Retail Level
63-3613(b)7	2.37	Transportation Services
63-3613(b)8	2.67	Auto Manufacturer Rebates
63-3613(b)9	2.65	Sales by Outfitters & Guides
63-3613(c)	2.33	New Manufactured Homes or Modular Buildings
63-3613(e)	2.66	Sales Through Vending Machines
63-3621	2.16	Donations of Real Property to Idaho Government
63-3622A	2.70	Federal Constitutional Prohibitions
63-3622AA	2.31	Official Documents
63-3622B	2.10	Out-of-State Contracts
63-3622BB	2.59	INEEL R&D Purchases

Idaho Code		Title
63-3622C	2.22	Motor Fuels
63-3622CC	2.08	Railroad Rolling Stock & Remanufacturing
63-3622D	2.01	Production Exemption - Equipment
	2.02	Production Exemption - Supplies
63-3622DD	2.08	Railroad Rolling Stock & Remanufacturing
63-3622E	2.29	Containers
63-3622EE	2.13	Food Stamps/WIC
63-3622F	2.24	Utility Sales
63-3622FF	2.13	Food Stamps/WIC
63-3622G	2.23	Heating Materials
63-3622GG	2.07	Commercial Aircraft
63-3622H	2.62	Sales by Non-Retailers (Yard & Occasional Sales)
63-3622I	2.30	Nonprofit Literature
63-3622II	2.26	Vending Machines & Amusement Devices
63-3622J	2.19	School Lunches & Senior Citizens Meals
	2.64	Sales of Meals by Churches to Members
63-3622JJ	2.01	Production Exemption - Equipment
63-3622K(b)(1,6)	2.62	Sales by Non-Retailers (Yard & Occasional Sales)
63-3622K(b)(2-5)	2.12	Sale or Lease of Businesses or Business Assets
63-3622K(b)7	2.61	Sales by 4-H & FFA Clubs at Fairs
63-3622K(c)	2.60	Motor Vehicle Purchases by Family Members
63-3622KK	2.68	Incidental Sales of Churches
63-3622LL	2.47	Media Measurement Services
63-3622N	2.27	Prescriptions and Durable Medical Equipment
63-3622O(1)(a)	2.49	Educational Institution Purchases
63-3622O(1)(a)	2.50	Hospital Purchases
63-3622O(1)(a)	2.51	Health Entity Purchases
63-3622O(1)(a)	2.52	Canal Company Purchases
63-3622O(1)(a)	2.53	Forest Protective Association Purchases
63-3622O(1)(b, c)	2.54	Food Bank Purchases
63-3622O(1)(d)	2.55	Nonsale Clothier Purchases
63-3622O(1)(e)	2.56	Centers for Independent Living
63-3622O(1)(f)	2.57	State of Idaho and Local Government Purchases
63-3622O(5)	2.58	Ronald McDonald House Rooms
63-3622P	2.15	Common Carrier Purchases and Out-of-State Sales
63-3622Q	2.15	Common Carrier Purchases and Out-of-State Sales
63-3622R	2.09	Interstate Trucks
	2.14	Motor Vehicles Used Outside of Idaho
	2.25	Used Mobile Homes
63-3622S	2.05	Broadcast Equipment & Supplies
63-3622T	2.06	Publishing Equipment and Supplies
63-3622U	2.28	Funeral Caskets
63-3622V	2.32	Precious Metal Bullion
63-3622W	2.03	Irrigation Equipment & Supplies
63-3622X	2.04	Pollution Control Equipment
63-3622Y	2.04	Pollution Control Equipment
63-3622Z	2.63	Sales by Indian Tribes on Reservations
67-7439	1.26	Idaho Lottery Winnings Exclusion
	2.46	Lottery Tickets and Pari-Mutuel Betting

